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ABSTRACT

The publication was produced in cooperation with the New York State Banking Department and is intended primarily as a teaching module to introduce high school students to how banks operate and how consumers can make best use of a bank's services. There is no assumption of prior banking experience or knowledge. In addition to some brief notes to the instructor and some introductory information on what banks are and how various types of banking institutions differ, there are sections on: checking accounts, savings accounts, home mortgages, business loans, foreign banking, student loans, trust and investment advisory services, State and Federal regulatory agencies, and banking terminology. Each section (except those in regulatory agencies and terminology) begins with an illustrative anecdote, continues with questions and sometimes detailed answers, and ends with a list of review questions. There are a few brief tables (to illustrate interest rates, for example) and some reproductions of various banking forms. (PR)

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BANKING

One of a series for expanded programs in Consumer Education

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FOREWORD

The Education Department was fortunate in securing the resources of the New York State Banking Department to help develop this module. Superintendent Harry W. Albright, Jr., has provided the services of key personnel both to work with schools in developing the material and in checking it for fairness and accuracy. (See his letter on following page.) Appreciation is also expressed to John Holmes, consumer education teacher at Hudson Falls High School and the students of his class, and to Robert Feldman and students under his direction at Central Commercial High School, New York City. Both these teachers and their students expressed needs which we hope have been reflected in the module.

In other modules in this series key personnel in the Attorney General's Office, and in the Departments of Health, Taxation, Recreation, Environmental Protection, Social Services, Transportation, and Insurance have reviewed the material and made valuable suggestions for improvement. In this module we have again "borrowed brains," this time from the Banking Department, to present up-to-date factual material in the consumer field. For suggestions on how to use the material, readers are referred to the basic course outline "Materials for an Elective Course" and to the subsequent publications in the consumer field listed below:

Consumer Education - The New Approach
Consumer Education - Using the Full Team
Consumer Issues and Action
Consumer Problems of the Poor
The Consumer and His Health Dollar
The Consumer and Recreation
Education and the Consumer
The Consumer and Transportation
The Consumer Looks at His Automobile Insurance
Beauty Products and the Consumer
Taxes and the Consumer
Credit and the Consumer
Coping With the Problems of a Technological Age, Part I
Coping With the Problems of a Technological Age, Part II
Travel and the Consumer
Law and the Consumer
Cars, Cycles, and Consumers
Food: Facts and Fancies
Consumer Concerns

Hillis K. Idleman, associate in secondary curriculum development, made the arrangements with the Banking Department for this cooperative effort and was in charge of editing and preparing this module for publication.

Gordon E. Van Hooft
Director, Division of
Curriculum Development

HARRY W. ALBRIGHT, JR
SUPERINTENDENT OF BANKS

STATE OF NEW YORK
BANKING DEPARTMENT
AGENCY BUILDING 4
EMPIRE STATE PLAZA
ALBANY, NEW YORK 12223

November 19, 1974

Mr. Hillis K. Idleman
Associate in Secondary Curriculum Development
Bureau of Secondary Curriculum Development
State Education Department
Albany, New York 12224

Dear Mr. Idleman:

I am pleased to send to you the third draft of the module on banking to be used by high school teachers for courses of instruction in banking and finance.

I would like to take this opportunity to thank all of those in the Department who contributed to its completion. They are:

Executive Division
Mr. Dudley M. Harman
Mrs. Mary C. Gensicke
Mr. James B. Kenney

Administration Division
Mr. Lloyd W. Franks
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Consumer Affairs Division
Mr. Carmine DeMarco

Examinations Division
Mr. Alan R. Cohen

Savings & Loan Division
Mr. Thomas E. McDonald

Savings Banks Division
Mr. Andrew Martin
Mr. James V. Walpole

In addition, I would like to thank the teachers and students of Central Commercial High School in New York City and the Hudson Falls High School in Hudson Falls, New York for their valuable assistance.

May I take this opportunity to congratulate you on your fine work and offer again any assistance you may require.

Sincerely,

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This module on banking should have many outcomes. Among them, surely, will be an understanding of how banks operate, and how consumers can best use their services. But of greater import are the understandings of ourselves, of our dreams, our aspirations, and how banking and money management can help us to realize these dreams.

A story is told of Michelangelo that illustrates the point. As the sculptor was chiselling a block of marble, a boy came every day and watched shyly. When the figure of "David" appeared, complete for all the world to admire, the boy asked Michelangelo: "How did you know he was in there?"

The skilled teacher will help students to see the person inside themselves and release the potential therein.

A study of this material should help students to find answers to questions such as these:

- What is a bank?
- How does it make money?
- What are the different types of banks?
- What particular services are performed by each type?
- How can one choose the bank which will best serve him?
- When should one use a credit union?
- Why do people save money?
- Why is it necessary to plan for systematic savings?
- How can one choose the contract that will provide the greatest amount of interest?
- What is a loan fee or point charge?
- What does deposit insurance mean?
- Are interest rates regulated? And, if so, who does the regulating?
- What is meant by good credit risk? A bad credit risk?
- How does a bank determine your credit worthiness?
- If a consumer feels that a bank has dealt unfairly with him, what recourse does he have?

* * * * * * * * * * *

VALUABLE RESOURCE

"Cash, Credit and the Consumer" — a report from the New York State Committee on Banking will be of help in teaching this unit. Copies are available from the Committee on Banking, New York State Senate, State Capitol, Albany, N.Y. 12224.

INTRODUCTION

Values and Goals

Consumer Education is emerging from an era that might be classified as "bargain hunting." Much of the earlier effort was spent on comparing prices and services and on pinching pennies. More recently the trend seems to be toward values identification and clarification — a much more significant and rewarding occupation than bargain hunting.

Thus we find consumer educators spending more and more time on helping pupils to identify those aspects of their life that are satisfying and rewarding, and less and less time on transmitting the skills of shopping. Teachers use a variety of devices to find out what pupils like to do, or would like to do, and be. Such an inventory may start with a listing of "Things I Like To Do," or it may take the form of imagining that one has been given a $1000 bill which cannot be used to pay for current bills. How shall it be spent? From such decisions the shape of hidden desires and longings emerges. The teacher will elicit from pupils the degree to which planning decisions involve risk, involve the decisions of others, and at what level satisfactions would come.

Everyone has options. Thomas Carlyle stated: "Of all paths a man could strike into, there is, at any given moment a *BEST* path for every man. This path, to find this path, and walk in it, is the one thing needful for him." The job of Consumer Education is to help each find his own path so that his spending of money, and even more importantly, of energy and time, can be fruitful.

It is not fashionable to teach values. Usually the word "impose" is placed before values in this connection as though all teaching of values is to be sneered at as forcing other people into a mold. Yet every person has a value system, and all values are transmitted. What greater contribution could a teacher make than to transmit some of the lasting and satisfying values society has developed to his students? A philosopher has said that this era is distinguished from all others in that for the first time we do not have a unified value system. Youth, particularly, but not exclusively, seem to grope about, blindly seeking, but not finding, happiness because their life values have not been identified and their strivings thus become futile and disappointing.

In this module on banking, with all its implied relationships to money management, the matter of values is the focal point. We can help youngsters to identify those aspects of life which to them are important. We can help them to see that for most of us the realization of these dreams comes only through savings, a form of deferred gratification. It might not be amiss, too, to let students develop the point that only through the savings and frugality of others has industry amassed the capital that makes the economy run and provides the employment opportunities for all. [Someone has figured out that it takes an investment of $25,500, on the average, to provide one employment opportunity.]

NOTES TO INSTRUCTOR

Before instructing the students regarding the various financial institutions and the services they offer it is suggested that you collect sample materials which will prove helpful in explaining different banking services. Some banks, especially commercial banks, will differ in the types of services available. Although they may be similar, the rates of interest, fees charged for services, and services covered by such fees, etc., may be different. Banks usually have an abundant supply of literature available on the services they offer.

Below is a list of materials that you will need.

Savings Banks and/or Savings and Loans:

Samples of: savings deposit and withdrawal slips, travelers checks, safe deposit box applications, applications for savings bank life insurance, mortgages, home improvement loans, money orders.

Commercial Banks:

Samples of: Applications for checking accounts, savings accounts, auto loans, systematic savings, special monthly fee account, bank credit cards; savings deposit and withdrawal slips, travelers checks, etc.

IMPORTANT

It is advisable that you arrange to have a guest speaker such as a bank officer from a local bank come to your school and answer students' questions on banking.

IF YOU WANT TO LEARN HOW TO MAKE MORE MONEY...
YOU MUST FIRST LEARN MORE ABOUT BANKING.

Are you confused about banks and how they can work for you? Well, most students are in the same boat. If you don't use a bank regularly, chances are you have many, many questions. Asking questions and getting the right answers is the only way to learn about anything - its no different with banking!

Kathy Brown, a sophomore in high school was upset about money. She never seemed to have enough of it, and couldn't understand why some of the other students were able to buy new jeans or record albums or some other luxury just about every week, when her money just about got her to and from school. She decided to ask Tom Curtis, a classmate, how he managed his money. Like Kathy, Tom never got an allowance but always seemed to have extra cash. He said he had been working part time for the last two years and was saving to pay for college expenses but was able to keep a few extra dollars in his pocket for a movie or clothes, once in awhile, from the interest he got on the money he put into the bank. "The best way to get money is to work and save. Besides, when you finally leave school, you're going to have to hold down a full time job anyway, so why not start now and get used to the idea?" Kathy was interested enough in the extra money to find a job and she was even more interested in what Tom had said about the interest his money earned and she wanted to know more.

When Kathy asked Tom just how this interest business worked he told her that he wasn't really sure, but he'd like to find out too and said the best way to get answers was to go to the bank and ask. The next day they met at Commercial Trust Co. and asked the Assistant Manager if he might be able to help them learn more about banks. He said he'd be glad to help.

QUESTIONS AND ANSWERS

Q. Why do we need banks?

A. Banks, acting as financial intermediaries, are necessary to promote sound economic growth.

Q. What is a bank?

A. A bank is primarily a financial institution whose principal function is to attract temporarily idle funds of the public (deposits) for the purpose of lending them to others for investment.

Q. What are the different types of banks and what are the services they offer?

A. There are many differences between the four major types of banking organizations and the services they offer. The chart on page 4 presents the major differences in capsule form.

Q. How can you tell the difference between these banks when there are sometimes many banks on the same street?

A. Savings banks and savings and loan associations are easily distinguishable from commercial banks because their title must indicate the nature of their business, i.e., Erie Savings Bank or Buffalo Savings and Loan Association.

Q. Are all banks that do business in New York State chartered and supervised by New York State regulatory authorities?

A. No. As indicated in Schedule 1 some banks have the option under our dual banking system of obtaining charters from the Federal government and these institutions are supervised by Federal authorities. Banks chartered by the Federal government and not supervised by State authorities must include the words national or Federal in their name.

Q. How should one choose a bank?

A. As banking organizations doing business in New York State are supervised by various combinations of State and Federal agencies, the consumer may presume a relatively high degree of safety. Within this framework individuals should consider their own special needs giving consideration to the type of services required, cost, convenience, and expected return on funds deposited.

Type of Banking Organization	Services Offered
Commercial Banks A commercial bank is a stock corporation which is established for the custody, loan, exchange, or issue of money as well as receiving deposits to be loaned or invested. It is distinguished by its ability to receive demand deposits (checking accounts) and to make a wide variety of business and consumer loans.	Savings accounts, checking accounts, time deposits, personal loans, auto loans, home mortgages, chattle mortgages, certificates of deposit ("CDs") safe-deposit boxes, U.S. Savings Bonds, Christmas Clubs, travelers checks, credit card accounts.
Savings Banks Savings banks are mutual institutions (no stockholders) formed primarily to encourage thrift through savings. A significant portion of the savings dollars they attract is invested in various types of mortgages and this makes them a vital part of the housing market. They are prohibited from accepting demand deposits, but they offer a wide array of savings and mortgage services.	Savings accounts, mortgages, home improvement loans, savings bank life insurance, safe-deposit boxes, time deposit accounts, Christmas Clubs, certificates of deposit ("CDs") U.S. Savings Bonds, travelers checks.
Savings and Loan Associations Savings and loan associations are mutual institutions formed primarily to encourage thrift through savings and encourage home ownership by providing a source of mortgage credit. As such they play a vital part in the housing market. They are prohibited from accepting demand deposits but they offer a wide array of savings and mortgage services.	Savings accounts, home mortgages, time deposit accounts, certificates of deposit ("CDs") Christmas Clubs, Systematic Savings plans, U.S. Savings Bonds.

Credit Unions

Credit unions are mutual institutions formed to serve a specific group of people with a community of interests. Such groups could be residents of a particular area, members of an organization or a group of employees. The credit union's charter limits its services to that specific group. They encourage thrift through savings and provide a source of consumer credit to its members.

Savings accounts, mortgages, consumer loans, money orders, travelers checks.

CHECKING ACCOUNTS

NOTES TO INSTRUCTOR

As you can see from the comparison chart in Section I, commercial banks offer more services than either savings banks or savings and loan associations. The one important service that commercial banks provide which the others do not is checking accounts. New York State law prohibits savings banks and savings and loan associations from offering checking accounts to the consumer; however, savings banks and savings and loans are seeking the right to offer checking accounts in order to be more competitive with commercial banks. Some of these banks argue that they are losing business to the commercial banks. This may be true in some cases. If a consumer has a checking account he must be dealing with a commercial bank and if he goes to the commercial bank to make deposits in his checking account, presumably he will also have his savings account and loans at the same bank. On the other hand, if he keeps his savings in a savings bank, the interest he gets on his money is a greater percent than at a commercial bank. Interest is one of the factors involved in helping a consumer to choose the best bank for him to do business with, but let's not get into that right now; we'll cover it in great detail when we talk about savings accounts.

CHECKING ACCOUNTS - EXAMPLE

Sally Quinn, a recent high school graduate on her first full-time job, wanted to find a better way of paying her monthly bills so she decided to open a checking account at the local branch of Commercial Trust.

When Sally arrived at the bank she went directly to the Assistant Manager, Mr. Jones, who was more than happy to assist her in opening the account.

The first step she encountered was filling out an application for a Personal Checking Account. The application required that Sally give some personal, pertinent information. Mr. Jones then asked her to sign a signature card and fill out a deposit slip. Sally's first deposit was $50 which went into a temporary account. After having gone through these steps, Mr. Jones presented Sally with a book of 50 checks with the temporary account number on them. She was to use these checks until her application for a permanent account was approved in a week or so. He then showed her a catalogue of the different types of checks available to her at no additional charge, and gave her a brief demonstration on filling out and endorsing a check, as well as entering deposits and subtracting the amount of each check from her checkbook. Then Mr. Jones told Sally to return when she received her first bank statement and they would go over it together.

Until Sally received approval to open a permanent account she was able to deposit any amount into her temporary account by simply filling out a blank checking account deposit slip, at her local branch, with her name, address, amount of deposit and her temporary account number. (See illustration.)

Two weeks later Sally received an approval to open a personal checking account with Commercial Trust, and a notice that her new checks, checkbook, and ample supply of deposit slips would be sent under separate cover.

Within the month, Sally received her first checking account bank statement along with cancelled checks, and returned to the bank to go over these items with Mr. Jones. (See illustration.) He proceeded to show sally how to read the monthly statement and balance her checkbook. (See illustration.)

Application for Personal Account

Type of Account ☐ Personal Checking ☐ Other	Type of Personal Checking Account ☐ Special ☐ New ☐ Regular ☐ Transfer	Account Number	Date Opened Month | Day | Year

Personal

☐ Mr. ☐ Mrs. ☐ Miss Name		Date of Birth Mo. | Day | Yr.	Social Security Number
☐ Mr. ☐ Mrs. ☐ Miss Name of Second Applicant If Joint Account		Name of Spouse	Telephone No.
Present Home Address – Number & Street	Apartment No.	Number of Dependents	Send Mail To ☐ Home ☐ Business
City, Town, Post Office	Zip Code	Yrs. There | Own ☐ | Rent ☐	☐ House ☐ Apartment
Previous Home Address *(If above is less than 2 years)*		Yrs. There | Own ☐ | Rent ☐	☐ House ☐ Apartment

Employment or Business

Firm Name		Telephone No.	Type of Business
Address *(Number, Street, City & State)*	Zip Code	Employee No.	Department
Annual Income ☐ Under $5,000 ☐ $5,001-$7,500 ☐ $7,501-$10,000 ☐ $10,001-$15,000 ☐ Over $15,000		No. of Years with Firm	Position
If Employed with Above Firm Less than 1 Year, Name and Address of Previous Firm			No. of Years There?
Name and Address of Second Applicant's Employer *(If Joint Account)*			

Bank References

Name and Branch Address	☐ Saving ☐ Checking	Account No.
Name and Branch Address	☐ Saving ☐ Checking	Account No.

Rules and Regulations

The undersigned acknowledges receipt of a copy of the rules and regulations applicable to this Checking Account and agrees to be bound by them.

Signature of Applicant	Signature of Second Applicant (If Joint Account)

For Bank Use

Service Charge Terms	Introduced By	Assigned To	Initial Deposit $
Business Affiliations			
Personal Accounts *(indicate type and account number)*	R/C Code	Industrial Code	Geo. Code
P/C Line	M/C Line	Master Charge Account Number	Control Number

SIGNATURE CARD

SINGLE NAME SAVINGS ACCOUNT ACCOUNT NO

To NATIONAL COMMERCIAL BANK AND TRUST COMPANY

Below please find signature which you will recognize in the payment of funds or the transaction of other business in connection with my account. It is agreed that the Rules and Regulations which are printed in the pass book are assented to and that the undersigned agree to be bound thereby. This account shall be at all times subject to the Rules and Regulations of the Bank now in force or hereafter adopted.

Signature Mr.
Mrs.
Miss

Signature by Power of Attorney

Citizen of Social Security No.

Address

Occupation

Introduced by

Date | Opened by | Initial Deposit

F-42-41 6-72

JOINT NAME ☐ REG. CHECKING ☐ CONV. CHECKING ACCT. CODE SYM.

OR

Payable to either or to the survivor of either

TO NATIONAL COMMERCIAL BANK AND TRUST COMPANY

A joint account with right of survivorship is hereby created and the Bank is hereby notified accordingly.

1 CITIZEN OF DATE

2 CITIZEN OF OPENED BY

DEPOSIT

ADDRESS

1 OCCUPATION SOCIAL SECURITY NO.

2 OCCUPATION SOCIAL SECURITY NO.

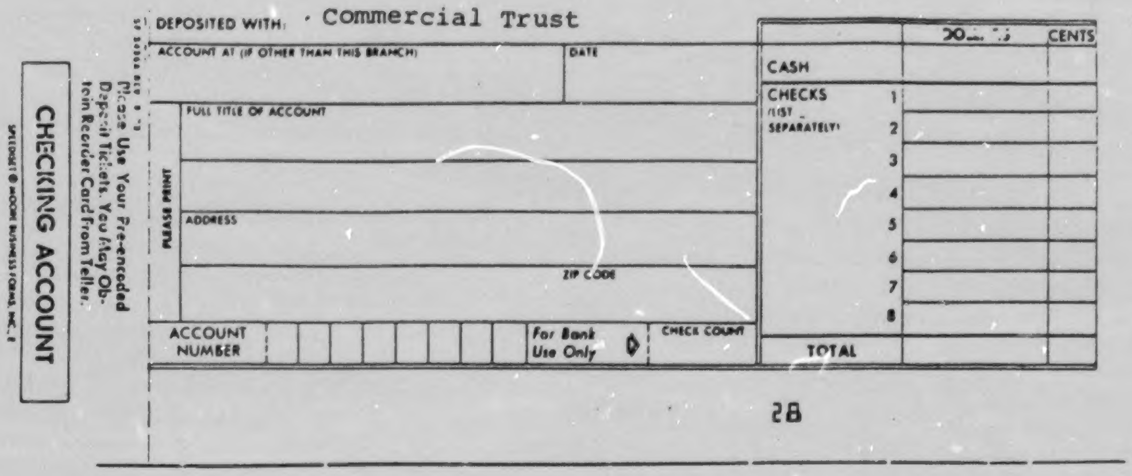
INTRODUCED BY

We, the persons whose signatures appear above, hereby open a joint account with right of survivorship which shall be governed by and subject to the laws of the State of New York now existing or hereafter enacted. During our joint lives all moneys, checks, and other instruments for the payment of money at any time deposited in this account are and will be joint property, and the balance in this account shall be subject to withdrawal, transfer or other disposition in whole or in part by either. You may accept any instructions from either in connection with this account except that the signatures of each are required to appoint an attorney-in-fact, whose acts in respect to this account shall be binding upon each of us.

(Continued on Reverse Side)

F-469-33 8-72

CHECKING ACCOUNT DEPOSIT SLIP



CHECKING ACCOUNT

Please Use Your Pre-encoded Deposit Tickets. You May Obtain Reorder Card From Teller.

SPEEDISET © MOORE BUSINESS FORMS, INC.

DEPOSITED WITH: · Commercial Trust

ACCOUNT AT (IF OTHER THAN THIS BRANCH)

DATE

PLEASE PRINT

FULL TITLE OF ACCOUNT

ADDRESS

ZIP CODE

ACCOUNT NUMBER

For Bank Use Only

CHECK COUNT

		DOLLARS	CENTS
CASH			
CHECKS (LIST SEPARATELY)	1		
	2		
	3		
	4		
	5		
	6		
	7		
	8		
TOTAL			

28

How to balance your checkbook with bank statement

Here is a simple system for balancing your checkbook against the statements you will receive from the bank each month.

Different banks provide slightly different methods of keeping such records, but all checkbooks have some kind of stub or ledger for recording each check. Fill out the information when you write the check! Do not, under any circumstances, let it go until later in the day, or until the end of the week. You will find the habit of recording your check when it is written of crucial importance in the maintenance of sound financial records.

Keep your checkbook in balance. That way you will never write checks for money you don't have. Simply deduct the total amount of money on the checks you have written, but which have not yet been cashed, from the amount the bank has credited to your account. Deduct your service charges and add any recent deposits not shown on the bank's statement.

To reconcile your checkbook balance with the bank statement:

1) When you get your statement from your bank, take out all the canceled checks and put them in numerical order or by date, if your checks aren't numbered. Then go through your checkbook stubs and put a mark on each stub for which you now have a canceled check.

2) Go back through your checkbook and write down on a sheet of paper the amounts of all the outstanding checks—not yet paid out of your account by the bank. Now, put down the amounts you have deposited, which the bank has not yet recorded on the statement.

3) Write down the service charges made against your account.

4) You are now ready to reconcile your checkbook with your bank statement, as on the form below. The answer appearing at item #8—your revised bank-statement balance—should, then, agree to the penny with item #3.

In instances where you cannot reconcile the balances:

1) Have you double-checked all addition and subtraction in your checkbook?

2) Have you carried forward any outstanding checks from your previous statement that are still outstanding? If you have any, they must be added to your outstanding-checks total.

3) Have you compared the amounts on your checks with the amounts listed on the stubs in your checkbook? You may have transposed totals in your checkbook.

4) Have you carried forward the correct balance from page to page in your checkbook?

5) Did you write a check and forget to enter it in your checkbook?

If you still cannot find the mistake, bring your checkbook, together with your statement and canceled checks, to your bank. One of the bank officers will be happy to help you—and unless there is something unusually wrong with your account, there is no charge for this service. Go as soon as possible after you have received your statement—not a month later!

How to balance your checkbook

1	Your checkbook balance	$
2	Subtract service charges as they are stated on bank statement	$
3	Your new checkbook balance	$
4	Bank statement balance	$
5	Subtract the value of all checks written but not as yet paid by your bank	$
6	New bank-statement balance	$
7	Add those deposits you have made which have not been recorded in current bank statement	$
8	REVISED BANK STATEMENT BALANCE	$

QUESTIONS AND ANSWERS

Q. What is a check?

A. A check is a way of transferring money from one person, business, or organization to another without using the actual cash.

Q. How can a check represent money if it is only a piece of paper?

A. You know that your money is backed by the Federal Reserve Bank, so any legal instrument you use to represent money is also backed as long as you have the money in your checking account. When you write a check you are actually instructing the bank to pay the amount you have designated on the face of the check. A good example would be if you owed John $10 and didn't have the cash on hand but you do have a checking account with Commercial Trust. You would write the check to John for $10, ordering the bank to take the $10 from your checking account and pay it to John. When he arrives at his bank with the check he endorses it and receives the $10 in cash. The illustration below shows exactly how a check should be written.

1—**The Date** should be written first and it should be the date on which the check is drawn.

2—**The Payee's Name** should be written after the printed words "Pay to the Order Of." (The payee is the person or organization to whom the money is to be paid.) Spell the name correctly.

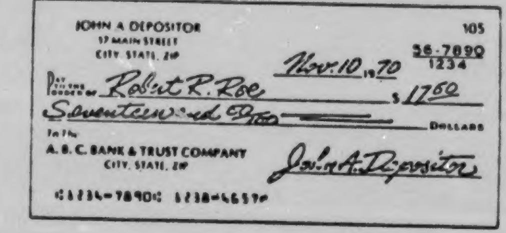
3—**The Amount in Words** should be started as far to the left as possible so that no one can insert a word before it and thereby raise the amount. Fill in any unused space with a line.

4—**The Amount in Figures** should be written close to the $ sign, and must agree with the amount in words. If there is a difference between them, the amount in words determines the amount of the check.

5—**Your Signature** should be written to resemble as closely as possible the signature on file , and written only *after* all of the other items have been carefully completed.

Never cross out or change any written part of a check. If you make an error, write "Canceled" across the face of the check and file it with your canceled checks.

A COMPLETED CHECK ILLUSTRATED



JOHN A DEPOSITOR
17 MAIN STREET
CITY, STATE, ZIP

105

56-7890
1234

Nov. 10 19 70

Pay to the order of Robert R. Roe $ 17 50

Seventeen and 50/100 Dollars

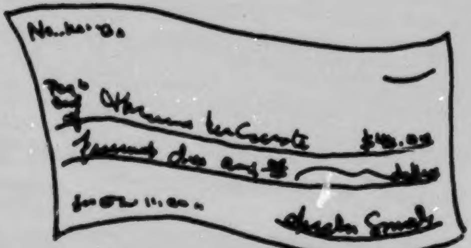
To the
A. B. C. BANK & TRUST COMPANY
CITY, STATE, ZIP

John A. Depositor

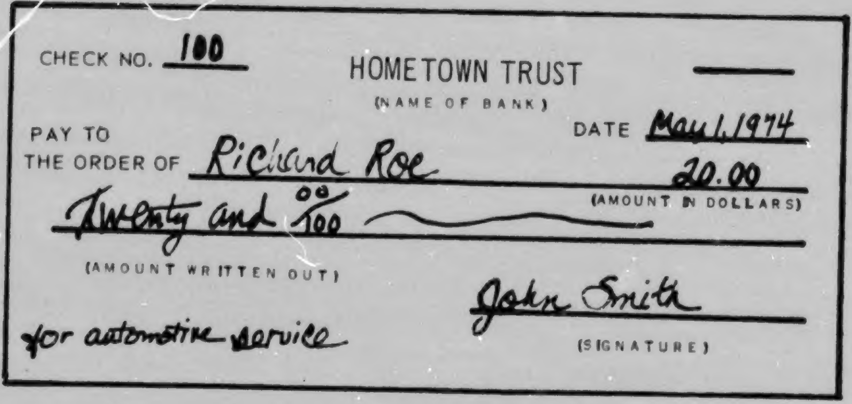
1234-7890 1238-4657

WHAT IS A CHECK?

A CHECK IS AN ORDER TO PAY A STATED AMOUNT OF MONEY.



JUST AS GOOD AS MONEY (AND SAFER) IF BACKED BY ADEQUATE DEPOSITS.



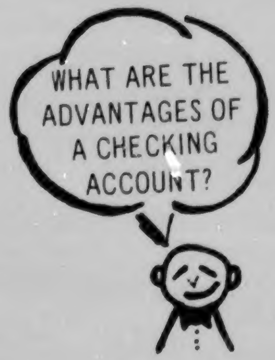
CHECK NO. 100
HOMETOWN TRUST
(NAME OF BANK)
DATE May 1, 1974
PAY TO
THE ORDER OF Richard Roe 20.00
(AMOUNT IN DOLLARS)
Twenty and 00/100
(AMOUNT WRITTEN OUT)
for automotive service
John Smith
(SIGNATURE)

A PROPERLY DRAWN CHECK

- WRITTEN IN INK AND DATED
- SHOWS THE NAME OF THE PAYEE CLEARLY
- SHOWS THE AMOUNT TO BE PAID IN NUMBERS AND IN WORDS
- IS ENDORSED AS SHOWN ON THE BANK'S SIGNATURE CARD
- MAY SHOW WHAT THE PAYMENT IS FOR

A CHECKING ACCOUNT IS A BUSINESS-LIKE WAY TO MANAGE MONEY

- IT HELPS ESTABLISH CREDIT
- HELPS YOU MANAGE A BUDGET
- HELPS IN MAKING OUT TAX RETURNS


WHAT ARE THE ADVANTAGES OF A CHECKING ACCOUNT?

IT IS CONVENIENT – YOU DON'T HAVE TO CARRY CASH.

IT IS SAFER – MONEY CAN BE LOST OR STOLEN.

IT SAVES TIME – CHECKS CAN BE MAILED INSTEAD OF PAYING IN PERSON

IT GIVES YOU A RECEIPT – A CANCELED CHECK IS PROOF OF PAYMENT.

Q. Why is it necessary to draw a line through all unused space?

A. If you don't write your checks exactly as shown in the illustration, you may have trouble. If the check should get into the wrong hands after it has left you and there are any blank spaces, it would be very simple for someone to add an extra number to the amount of the check or alter it in some other way to his or her advantage. If you wrote a check to John for $10.00 and didn't write the number close enough to the dollar sign, it would be very simple to put an extra 1 in front of the ten and make it $110.00. Of course, the forger would also have to write one hundred in front of the ten written in words, but if you made the mistake of leaving any space on the written amount line in front of the written ten it would be very simple to insert one hundred in words. If the forger were brazen enough to alter the front of the check he would probably endorse the check on the back with John's name and present it to a teller at the bank.

Q. What is a checking account?

A. A checking account is an account subject to withdrawal by check against funds deposited. The essential difference between a checking account and a savings account is that balances in a checking account are payable on demand, and do not bear interest. A savings account bears interest, and notice of withdrawal may be required by the paying bank. The method of operation is also different, since a savings account requires presentation of a passbook for deposit or withdrawal, and the balance is always indicated in the passbook. A statement is rendered for a checking account, usually monthly, and checks may be drawn against the account. The depositor keeps his own record of deposits and checks drawn to balance against the statement.

Q. What should be done when checks are lost or stolen?

A. If blank checks are lost or stolen, the bank of account should be notified immediately. In turn, the bank will place a hold on the account and open a new account with different account numbers. If a check is lost or stolen which has been filled in, made payable to an individual or institution and signed, the payee and the bank of account should be notified immediately. Further, a stop-payment order should be completed by the customer, directing the bank to refuse payment if the check should be presented.

If a check is lost or stolen which has been made payable to "Cash" and signed, you may be in trouble. The bank is obligated by law to pay the check if it is presented for payment. Even so, you have some protection. Banks do not cash checks for people whom they do not know or who do not present reasonable identification. A person in possession of such a check would have a difficult time cashing it without clearly identifying himself. He might do so with the use of stolen identification.

Play the percentages.

8.17% effective annual yield on **7.75%**

per year guaranteed. **6** year Savings Certificate.
Minimum deposit. $1,000.

7.90% effective annual yield on **7.50%**

**per year guaranteed. 4 to 7 year Savings Certificate.
Minimum deposit, $1,000.**

5.47% effective annual yield on **5.25%**

Latest dividend paid on Day - of - Deposit
Day - of - Withdrawal and Regular Savings Accounts.

6.81% effective annual yield on **6.50%**

per year guaranteed 1 year to
2½ year Savings Certificates.
Minimum deposit. $500

7.08% effective annual yield on **6.75%**

**per year guaranteed 2½ to
4 years. Savings Certificates.
Minimum deposit. $500**

Money must remain on deposit to maturity. Interest can be mailed monthly. All interest compounded daily. F.D.I.C. regulations allow withdrawals prior to maturity on Savings Certificates provided rate of interest on amount withdrawn is reduced to the passbook rate and 3 months' interest is forfeited.

save with me

**mechanics
exchange
savings
bank**

Member Federal Deposit Insurance Corporation
(Insured to $40,000)

Q. Why have a checking account?

A. A checking account

- is a convenient and safe method of paying bills and sending money
- provides a record and receipt for expenditures
- provides protection against loss or theft of money.

Q. How does one open a checking account?

A. If you wish to open an account but are not yet known to the bank, the bank will ask for references so that your new relationship is one of mutual confidence. After your first deposit clears, you will receive a checkbook for use in making withdrawals and keeping records of deposits and payments. Checking accounts can be opened by business concerns, clubs and other organizations, by individuals for personal or business use, by two individuals jointly, or by persons acting in such capacities as trustee, agent, guardian, or executor.

Q. What is the origin of checks?

A. Experts are not sure when the concept of checks first appeared in monetary transactions. Some say the Romans first began using a simplified version of our modern checks about 352 B.C. Others say that the practice originated in Holland in the sixteenth century when people began depositing their money with cashiers for safekeeping rather than storing their money at home in secret places. For a fee the cashiers agreed to collect money and cancel the depositor's debts on his written order. The depositor's written order to make these financial transfers was the initial form of our modern check.

During the latter part of the seventeenth century in England the practice of using checks was widespread and the amount of bookkeeping and transfer of funds had begun to grow. People deposited their money with goldsmiths for safekeeping, and the goldsmiths issued "goldsmith notes" as receipts. These receipts were the goldsmiths' written promises to follow the customers' orders. To facilitate the transfers of money that became increasingly necessary with the development of an industrial society, people began to order the goldsmiths to pay a certain sum of their money to the bearers of the goldsmiths' notes. This was the first modern form of a check.

This direct payment of funds by a check which goldsmiths promised to honor became quickly recognized as a convenient method of transferring money and paying debts. A standardized written form was established and soon became commonly accepted by all goldsmiths. Soon after, the first printed check was introduced to further standardize the form of the checks. The economic invention is generally credited to Lawrence Childs, an Englishman, in 1762.

Q. What should I do with my cancelled checks?

A. You should keep all your stubs and checks in a safe place for at least six years for tax purposes.

Q. How does a checking account work?

A. A checking account is the amount of money you maintain at the bank to draw checks against. The bank is essentially doing the bookkeeping for you. The procedure is very simple. When you have decided to open a checking account you must first fill out an application and sign a signature card. Then you make your first deposit. You are given a supply of temporary checks to use until your permanent checks are printed and sent to you by mail. Your new checks will contain your name and address if you desire, will be pre-numbered or numberless whichever you desire, and will have your new checking account number printed on every check. You will also receive a supply of printed deposit slips with your name and account number on them.

Q. What are the advantages and disadvantages of using a checking account as opposed to using cash?

A. A checking account is a safe means of transmitting money. It is convenient for paying bills because it eliminates the need to have large amounts of money on hand, it saves you the expense and bother of obtaining postal or bank money orders and, unlike cash, checks can be safely mailed. This saves you time and effort. A check can be made payable to any person and only that person can cash the check. If for any reason you don't want the bank to honor the check, you can issue a stop-payment order. Opening a checking account gets you acquainted with the bank's officers and procedures which can be helpful in establishing your credit if you need to borrow money in the future. When you use checks rather than cash, there is no need to retain receipts because your cancelled check is a receipt. Cancelled checks can be helpful in preparing your yearly income tax returns, especially when reporting for social security, veteran's administration or any other governmental programs. The monthly bank statement helps you to keep to a budget.

The disadvantages in using checks are: A check can be lost, stolen or forged. It may not be honored by businesses outside the geographical area of the bank it is drawn on. The only other disadvantage is that you usually do pay a small fee for a checking account. There is paper work involved in keeping your account up to date, preparing and mailing your monthly statement, and paying the salary of the employee who maintains your account. Essentially this is the reason for the fee.

Q. What is a stop-payment and how does it work?

A. A stop-payment order is an order you give to your bank to stop funds from leaving your account for a specific check. An example would be if you wrote a check to John and you discovered that the check never reached John. Because of the possibility the check might have been stolen, you would want to issue another check to him and void the first one. To do this, you would have to order the bank not to pay the funds collectable on the first check. If the first check ever does reach the bank and you have issued a stop-payment order, the bank will not pay the amount of the check.

Q. How long does a stop-payment continue in effect?

A. It will remain effective for six months. If the check hasn't been presented for payment during that time, you may renew the stop-payment order.

Q. Is it advisable to use a checking account or use a combination of cash and money orders to pay bills?

A. Using checks or money orders for paying bills are safer methods; however, money orders are more expensive. Both can be sent in the mail. Checks and money orders each have an identifying number so in the event of loss, they can be traced.

Q. What are the different types of checking accounts and how do they vary?

A. The comparison chart below gives the details of each type of checking account, and shows how they vary.

COMPARISON CHART

Remember!! Only commercial banks can offer checking accounts.

Type of Account	Description
Individual	Only the person who opens the account can sign the checks.
Joint Account	Two or more people can write checks on the same account. This type of account is commonly used by husbands and wives.
Business Account	This account is the same type of account as a joint account except that the account is made out in the name of the business.
Special or Executive	An account which allows an individual to write checks without having sufficient funds in deposit to cover the check. This type of plan is often called a check credit plan. Because it automatically extends credit, banks are more cautious in offering this plan. In order to maintain this type of account you must have an outstanding credit rating.

Q. What are the costs of maintaining the various types of checking accounts?

A. This depends on several factors. If you maintain a sufficient balance in a regular checking account there will be no charges levied by the bank, but you will have lost the interest return you could have had if your money had been in a savings account. If you maintain a special checking account there is a set charge per check written, plus a flat monthly charge. With a regular checking account charges are based on the number of bookkeeping transactions involved. Since banking is a competitive business, the amount or rate of charges per item can vary from bank to bank. As with any product or service, you should shop around to find the bank offering the right blend of convenience, services, and cost to best suit your needs. The information presented in the chart on this page will give the reader an idea of the range of costs for the most common types of checking accounts offered.

	Range of Minimum Average Balance Required		Range of Charges For Each Check Written		Range of Monthly Service Fees	
PERSONAL	High	Low	High	Low	High	Low
Special	0	0	15¢	10¢	$1.00	0
Regular	2000-	100-	None	None	None	None
			There are generally no per check charges nor monthly service fees on regular type checking accounts requiring minimum balances. However, penalty charges ranging from $1-$4 per month are levied if minimum balance requirements are not met.			
Package Accounts	A number of banks provide packages which include checking account services in addition to various other services for a flat monthly fee ranging between $2.50 and $4.00. The services contained in these packages vary considerably between banks but usually include free gift checks, travelers checks, money orders, and safe deposit boxes.					
Business	These accounts are handled differently by each bank, usually on a profitability basis. Analysis of each account is made taking into consideration such things as loan, trust, and other service relationships. Charges are related to the overall profitability of the account.					

RALPH PEABODY JONES **321**
17 GREEN STREET **50-302**
HUDSON FALLS, N.Y. 100032 **222**

19

PAY TO THE ORDER OF **$**

DOLLARS

WEST BANK OF THE HUDSON
HUDSON FALLS, NEW YORK
222302-654321 025

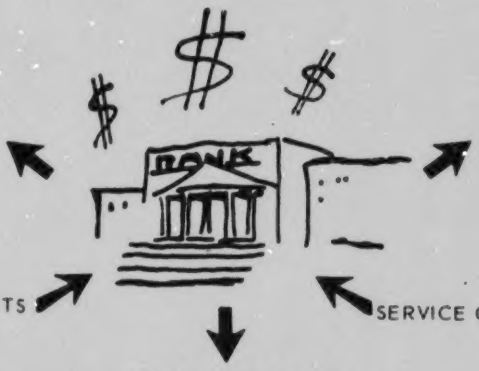
WHAT ARE THE NUMBERS PRINTED ACROSS THE BOTTOM OF CHECKS?

THEY ARE MAGNETIZED INK CHARACTER RECOGNITION NUMBERS. THESE NUMBERS MAKE IT POSSIBLE TO SPEED THE PROCESSING OF CHECKS SINCE COMPUTERS "READ" THE MICR NUMBERS.

HOW DOES A BANK FINANCE THE COST OF A CHECKING ACCOUNT?

THE EXPENSES OF CASHING CHECKS ARE MET IN 2 WAYS:

- THE MONEY ON DEPOSIT IS LOANED OUT AND EARNS INTEREST FOR THE BANK
- USUALLY A SERVICE CHARGE IS MADE FOR EACH CHECK CASHED (CUSTOMERS WHO MAINTAIN A LARGE BALANCE MAY NOT HAVE TO PAY A SERVICE CHARGE)



OPERATING COSTS FOR BANK BUILDING

COSTS OF PRINTING CHECKS

RECEIPTS FROM INTEREST ON DEPOSITORS' ACCOUNTS

SERVICE CHARGES FOR CHECKING ACCOUNTS

COSTS FOR LABOR

OF COURSE YOU COULD SAVE MONEY
IN A HIDING PLACE BUT IT
WOULD NOT BE SAFE
AND WOULD EARN NO INTEREST.

WHAT TYPES OF CHECKING ACCOUNT ARE AVAILABLE?

- REGULAR ACCOUNT. IF A MINIMUM BALANCE IS MAINTAINED NO SERVICE FEES ARE CHARGED.
- SPECIAL ACCOUNT. NO MINIMUM BALANCE NEED BE MAINTAINED BUT A FEE IS CHARGED FOR EACH CHECK PROCESSED.

DO SERVICE FEES VARY?

YES, INDEED. IT IS WISE TO SHOP AROUND AND FIND WHICH BANK'S SERVICES BEST MEET YOUR NEEDS.

Q. If a consumer has maintained a small personal checking account for some time, why shouldn't he open a special or executive account?

A. Banks are more cautious with the people to whom they offer special or executive services. They screen the depositors credit worthiness more carefully to insure that if they do take advantage of this type of account, they are in a position to repay the amount of credit extended. Banks do charge more for a special banking service than for an individual account.

Q. In order to open a checking account does a person need references?

A. If you are not yet known to the bank, they will ask for references since your new relationship is one of mutual confidence.

Q. What is a signature card and why do banks require them?

A. A signature card is a card the bank has you sign when you apply for a checking account. It is kept on file and is checked against the signature on each of the checks you use. Before the bank honors your check it matches the signature on the check with your signature on the card. The bank matches the signatures twice to be sure that your signature is not being forged.

Q. If the amount of a check shown in figures is different from the amount written out, does the bank refuse to pay the check?

A. No. The bank regards the amount written out as the correct figure. If you realize after a check has left your hands that it contains an error, call your bank and stop payment immediately.

Q. Is a check valid if it is dated on a Sunday or holiday?

A. Yes. It is not true that checks can only be dated on days when banks are open. However, a check over six months old may be rejected. In January and February, it is especially important to date your checks with the new year.

Q. When a check is received how is it turned into cash?

A. In order to exchange the check for cash you must first endorse the check. A check is endorsed when the payee (person to whom the check is written) signs his or her name to the back of the check, exactly as it appears on the front of the check. If a check is made payable to John J. Jones and John A. Jones is the intended payee then he must first endorse the check John J. Jones and then John A. Jones. When a check is endorsed the payee legally claims ownership of the cash.

HOW TO ENDORSE A CHECK

Before depositing a check which is payable to you, or before transferring it to another person, you must endorse it on the back at the extreme left end. If your name is misspelled or incomplete, write your first endorsement in the same way; then, underneath it, write your regular bank signature.

You assume the following responsibility when you endorse a check without qualification: (1) that the check is genuine and valid, (2) that you have received value for it, and (3) that, if necessary, you will pay it yourself. You may hold previous endorsers responsible for payment, just as any subsequent endorsers may hold you responsible for payment if the bank on which the check is written should refuse to honor it.

Q. What are the different types of endorsements?

Below are the different types of endorsements and their definitions.

KINDS OF ENDORSEMENTS

A Blank Endorsement (only your signature) transfers title of a check to the bearer. If the check is lost, the finder may cash it.

A Special Endorsement names the person who next must endorse the check.

A Qualified Endorsement limits further endorsement or controls check proceeds.

QUESTIONS AND ANSWERS

Q. Is it easier to cash a personal check in a store than a bank?

A. You won't have any difficulty cashing a valid personal check at a bank where you have an account. Some merchants provide a check-cashing service for steady customers who have filled out an identification card for this privilege. Other merchants, however, refuse to take the responsibility of cashing a check. This is the merchant's prerogative and he cannot be compelled to cash any check if he does not want to.

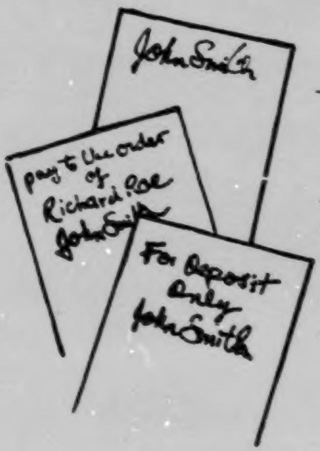
Q. Can a check be cashed at a bank where the consumer does not have an account?

A. It can be done if the check is cashed in the bank or a branch of the bank on which it is drawn. Where the check is drawn on another bank it must be taken to a bank officer first and the circumstances explained. The officer will decide whether or not the check may be cashed. A bank's first responsibility is to protect its depositors, and it is their money that is in jeopardy when cash is exchanged for a check which may not represent collectable funds.

HOW CAN I BE SURE MY DEPOSITS ARE SAFE?

CHOOSE A BANK THAT IS A MEMBER OF FEDERAL DEPOSIT INSURANCE CORPORATION. DEPOSITS IN THESE BANKS ARE INSURED. MORE THAN 95 PERCENT OF COMMERCIAL BANKS ARE INSURED BY F.D.I.C.

ENDORSING A CHECK (WRITING YOUR NAME ON THE BACK) MAY BE DONE 3 WAYS:


John Smith
pay to the order of Richard Roe John Smith
For deposit only John Smith

- YOUR SIGNATURE ON THE BACK OF A CHECK PERMITS ANYONE TO CASH IT.

- A "FULL" ENDORSEMENT (PAY TO THE ORDER OF RICHARD ROE) ALLOWS ONLY THE PERSON NAMED TO CASH THE CHECK.

- A "RESTRICTED ENDORSEMENT" SETS CONDITIONS FOR CASHING A CHECK, I.E., "FOR DEPOSIT ONLY."

Q. What is a certified check?

A. A certified check is your own personal check, stamped by the bank to guarantee that there are sufficient funds to cover it. When your bank certifies your check, that amount is set aside from your account and held until the check is presented. Should you have a check certified and then not use it, you must return it to the bank so that the money will be recredited to your account.

Q. Is a certified check different from a regular check?

A. Yes, a certified check is guaranteed by the bank whereas a regular check is assumed to be valid. A certified check can be used when a personal check is unacceptable to the payee. A small fee is charged by banks for this service.

Q. What happens if you overdraw your personal checking account?

A. A bank is under no obligation to pay a check if the account balance is less than the amount of a check presented for payment. Such checks are usually returned automatically unpaid to the payee. In order to cover the additional paperwork involved in processing a "returned" check, banks may charge a penalty of up to $4.00 per returned check. Technically, it is against the law to knowingly write a check when the funds are not on deposit to cover the check. In short, overdrawing an account is both illegal and poor business practice.

Q. Are the penalties for overdraft different from bank to bank?

A. Yes. Occasionally, a bank will waive the charge for a good customer who has a record of very infrequent, if any, overdrafts. Most banks charge between $2.00 and $4.00 per check returned due to insufficient funds.

Q. Are "Free" checking accounts actually free?

A. No, someone has to pay the cost of printing the checks and processing them. Although banks assume these costs as part of their overhead, each check it must process means that part of the cost is passed to the customer.

Q. How does one reconcile a checking account?

A. Compare your record of checks written and deposits made to the bank statement. Any check written by you that does not appear on the bank statement should be deducted from the balance figure on the statement. Any deposit made by you that does not appear on the bank statement should be added to the balance figure on the statement. If your addition and subtraction are correct, the balances shown on your record and the bank statement will be in agreement, i.e., they will be reconciled.

Q. Are there any legal restrictions on the use of checks?

A. There are no legal restrictions against paying by check but the party receiving payment has the option to accept or refuse this type of payment. It is a safe practice not to accept payment by check if you do not know the party with whom you are dealing. It is, of course, illegal to:

(a) write checks for which you do not have covering balances
(b) write checks when you do not have an account (fraud)
(c) write checks and sign another's name. (forgery)

Q. What is a check credit plan?

A. In a check credit plan you are borrowing money from the bank each time you write a check. You do not have any money on deposit with the bank. In effect it is a credit plan in which the bank extends credit and for which the bank charges you interest.

Q. What are the dangers of a checking account?

A. If your records are not maintained properly you might mistakenly pay someone with a check for which you do not have sufficient money in your account. Of course, if this is done intentionally, it is a criminal offense.

If the bank should fail, i.e., become bankrupt, any money in your account, over a certain amount that is not covered by government insurance, could be lost.

Dishonest individuals, could by forgery or embezzlement, steal your funds.

Q. What is a check overdraw ("Open-End") Loan?

A. The essence of this type transaction, which can have many names, is a contractual loan. When you open your account, the bank gives you assurance that any time in the future you wish to write a check against insufficient funds or no funds at all in your account, the bank will honor or pay this check. The effect is that the bank is lending you the necessary amount of money to cover the check and accordingly charges your account a set rate of interest for the loan.

Q. What are the problems with a check overdraw loan plan?

A. It may tempt you to overextend your credit. Further, the bank may insist on minimum transfers, i.e., if overdraft is for $1 a minimum of $100 may be transferred and increase interest charges.

RECONCILING A BANK STATEMENT IS CHECKING TO SEE THAT THE BANK'S RECORDS AND YOURS AGREE

-MATCH CHECKS YOU WROTE AGAINST THE CHECK REGISTER

-SUBTRACT SERVICE CHARGES (IF ANY) FROM CHECKBOOK BALANCE

-SUBTRACT THE TOTAL AMOUNT OF CHECKS OUTSTANDING (THOSE NOT YET CASHED)

-ADD ANY DEPOSITS MADE NOT SHOWN ON BANK STATEMENT

YOUR BANK STATEMENT AND YOUR CHECKBOOK BALANCE SHOULD THEN BE THE SAME.

WHAT HAPPENS IF YOU WRITE A CHECK WITHOUT SUFFICIENT FUNDS ON DEPOSIT TO PAY IT? (OVERDRAW YOUR ACCOUNT)

UNLESS YOU HAVE AN AUTOMATIC LINE OF CREDIT THE BANK WILL REFUSE PAYMENT, RETURN THE CHECK TO YOU, AND CHARGE YOU A FEE FOR OVERDRAWING YOUR ACCOUNT.

REVIEW QUESTIONS

What is a check?

How can a check represent money if it is only a piece of paper?

Why is it necessary to draw a line through all unused space?

What is a checking account?

What should be done when a check or checks are lost or stolen?

Why have a checking account?

How does one open a checking account?

What is the origin of checks?

What should I do with my cancelled checks?

How does a checking account work?

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What is a certified check?

How does one reconcile a checking account?

Are there any legal restrictions on the use of checks?

What is a check credit plan?

What are the dangers of a checking account?

What is a check overdraw ("Open-End") Loan?

What are the problems with a check overdraw plan?

SAVINGS ACCOUNTS

SAVINGS ACCOUNTS - EXAMPLE

Arnold Stern is a customer of City Savings Bank with a savings balance of $1,234 earning 5 1/4% interest in a regular savings account. Arnold is exploring the possibility of earning more interest on his savings.

Mr. Solomon, the Branch Manager introduced Arnold to some of the attractive savings plans at City Savings Bank. He suggested that Arnold might take $500 of his savings and put it into a special "time-deposit" account. The interest earned would depend on the length of time the $500 is maintained in the account. If Arnold agrees to leave $500 in the special "time-deposit" account from 90 days to 7 years he will earn additional interest commensurate with the length of time he chooses.

Arnold decided that he'd put $500 in a 2 1/2 year "time-deposit" and earn 5 3/4% and was undecided as to what type of account would be best for his remaining savings.

Mr. Solomon informed Arnold as to the different types of savings accounts available at 5 1/4% including the regular grace period accounts and the day of deposit-day of withdrawal accounts.

Mr. Solomon also suggested that in order to keep saving regularly Arnold might consider a Special Goals Account or Systematic Savings Plan. It would be arranged so that a specified amount of money could be withdrawn from Arnold's regular savings account and be automatically deposited into his Savings Plan account weekly. Ideally, Arnold would be less tempted to withdraw from this special account and his savings would accumulate much faster.

Arnold thought it over and decided to first find out what commercial banks and savings and loan associations had to offer.

QUESTIONS AND ANSWERS

Q. Why do people save money?

A. The reasons why people save are as varied as their hopes, dreams, and needs. At various stages in life people desire and perhaps need vacations, household furnishings, a car, new clothes, college, and many other luxuries. Of course, one of the primary reasons for saving is to achieve some form of financial security which will provide a buffer against expenses which arise because of illness, loss of income, and other unforseen emergencies. Most people need only think of their family, relatives, or friends to find unfortunate situations which have been or would have been relieved by a savings cushion.

Q. Why is it necessary to plan for systematic savings?

A. At one time or another, we've told ourselves, "I'll start saving next week. No, I can't next week, let's see, next month? No, ... maybe when the term ends or better yet when I graduate." And so on and so forth until the realization dawns: "I've been fooling myself." Systematic savings is one habit that is good for the young and old. It really is the only way to attain the desired savings goal. The sooner a systematic savings plan is started, the sooner a sense of accomplishment and satisfaction is realized.

Q. What types of financial institutions accept savings?

A. Mutual savings banks, savings and loan associations, commercial banks and credit unions accept savings. In savings and loan associations and credit unions the savings plans are referred to as share accounts.

Q. Why is the bookkeeping method a bank uses important?

A. The bookkeeping method determines what portion of funds in a savings account is eligible to earn interest.

Q. How many different methods are there?

A. There are five basic bookkeeping methods that a bank can use. These are: 1) low balance or highest continuous balance;

2) First-in, first-out beginning balance; 3) First-in, first-out, first deposit; 4) Last-in, first-out, and 5) Day-of-deposit to day-of-withdrawal.

Q. How does the Low Balance or Highest Continuous Balance Method work?

A. With this method, interest is paid only on the funds that are in the account for the entire interest period.

Q. How does the First-in, First-out Beginning Balance Method work?

A. Interest is paid on the number of whole months that money is in the account. Any withdrawal from the account at any time during the interest period is subtracted from the beginning balance and then from subsequent deposits.

Q. How does the Day-of-Deposit to Day-of-Withdrawal Interest Method work?

A. This method computes interest daily on the funds in the account.

Q. It seems that the Day-of-Deposit to Day-of-Withdrawal Method would pay the most interest. Is this right?

A. Yes, in an account where there are numerous deposits and withdrawals this method of bookkeeping would pay the consumer the most interest. However, in an account where no deposits or withdrawals were made during the entire period, all methods of bookkeeping would pay the same amount of interest.

Q. What is a Grace Period and how is it associated with the interest paid on savings accounts?

A. A grace period is a period of time during which deposits can be made and considered to be on deposit for the entire period. In the first method described above, the low balance, highest continuous balance, the grace period begins at the start of the interest period. In the first-in, first out, first deposit method and the last-in, first-out method the grace period occurs at the beginning of each month. With the day-of-deposit to day-of-withdrawal method there is no need for a grace period.

Q. Why is the Grace Period important?

A. The grace period gives the consumer greater flexibility in making deposits and withdrawals without losing interest on the money in the account. In effect he is being paid interest for certain days even though there may be no money on deposit during these days.

Q. How do consumers find out what bookkeeping method is used by the banks?

A. Although banks advertise the interest rate and compound periods, they do not advertise which method they use. The saver must specifically ask for this information when he or she opens an account, and must be persistent in seeking this information as many banking personnel themselves cannot adequately describe which method is used.

Q. How often can interest be paid on the various types of accounts?

A. There is a difference between dividends and interest. In state-chartered savings banks and savings and loan associations dividends are declared on savings and share accounts, usually quarterly, by the governing board of the bank if in their judgment the bank's earnings and surplus accounts permit the dividend payment. In rare instances, regulatory approval may be required before a dividend is paid. Interest on time deposits (certificates of deposit) are a contractual obligation of the bank.

Q. Why is there this difference?

A. The banks must conform to various statutory, regulatory, and supervisory requirements of Federal and state authorities.

Q. What is compounded interest?

A. When interest is added to principal and becomes a part of that principal, the total interest on that increased principal is called compounded interest.

In order to compute compounded interest all you really need to do is compute simple interest on the new principal accordi[illegible] the stated time factor (continuous, daily, etc.).

Q. How do the banks compute the continuously compounded interest rate?

A. The F.D.I.C. regulations authorize banks to use 360 or 365 days (366 days in a leap year) as the denominator of the time factor in computing interest on deposits and the actual number of days the money is on deposit as the numerator. Therefore, for a 365 day year the factor can be greater than 1, that is, 365/360 = 1.013889. The regulations also authorize months to be figured on a 30-day basis for interest calculation purposes.

The following table shows the actual difference in dollars and cents for various methods of compounding. The table is based on monthly deposits of $100 at a nominal interest rate of 5%.

Compounding Frequency	Account balance at the end of:		
	1 year	5 years	10 years
Annual	$1,227.50	$6,782.71	$15,439.36
Semi-Annual	1,227.66	6,792.05	15,486.45
Quarterly	1,227.78	6,797.10	15,511.23
Monthly	1,227.89	6,800.61	15,528.23
Daily (365 days)	1,227.94	6,802.36	15,536.61
Continuous	1,227.94	6,802.42	15,536.90

Currently all savings banks in New York State compound either quarterly, daily, or continuously. The table illustrates that the money difference between daily and continuous compounding is miniscule. You may also note that the dollar difference between quarterly compounding and daily or continuous compounding assumes some significances only after many years.

Q. Who pays the most for your savings?

A. As previously mentioned, interest rate ceilings are fixed by three Federal supervisory agencies. The current maximum permissible rates are as follows:

	Commercial Banks	Savings banks and SLA's
	%	%
Passbook accounts	5.0	5.25
Time deposits 30 to 89 days	5.0	5.75
90 days to 1 yr	5.5	5.75
1 to 2 1/2 yrs	6.0	6.50
2 1/2 to 4 yrs	6.5	6.75
4 yrs and over	7.25 (minimum deposit $1,000)	7.50 (minimum deposit $1,000)

There is no ceiling on single maturity time deposits of $100,000 or more for deposits in commercial or savings banks or savings and loan associations.

Q. Can these interest rates be changed?

A. The Board of Directors of the F.D.I.C. fixes interest rates ceilings applicable to F.D.I.C. insured nonmember banks after consultations with the Boards of Governors of the Federal Reserve and the Federal Home Loan Bank. The latter two agencies have parallel authority over rates that may be paid by national and state commercial banks which are members of the Federal Reserve System and by Federally insured savings and loan associations.

Banks do not have to pay or offer the maximum allowable interest rates.

Q. How do savings acquire "Grow Power?"

A. At current interest rates paid by most savings banks on a passbook account, the principal (the money you deposit) will double in about 13 years. For example, if you deposit $500 in a savings account which is paying 5 1/4% annually with daily compounding of interest, after 13 years and 2 months your account will grow to $1,000, provided no withdrawals have been made. The frequency of compounding interest (daily, continuous or quarterly) is up to the individual bank. "Grow Power" is also an advertising phrase reflecting the increase in sums deposited via accumulation of interest credited and left on deposit over a long period of time. Since the maximum rate of return on funds deposited is limited by Federal regulation, the maximums being slightly higher for savings banks and savings and loan associations than for commercial banks, it would be prudent for individuals to seek out a mutual savings institution as a depository of savings funds. However, for small depositors, the convenience factor may outweigh the difference in return between commercial and mutual institutions.

Q. How do we decide where to put savings?

A. High earnings with safety should be your objective. There are numerous types of investments available to the general public. Stocks, mutual funds, bonds, real estate, and commodities (precious metals, agricultural and livestock products) are some of the more commonly known. These investments are subject to fluctuations in value at any given time and usually require study, current information, and investment skill and knowledge. Quite often such investments entail risk; sometimes substantial risk. Although, occasionally referred to as savings vehicles, generally such purchases are recommended by financial advisors as a supplement to a savings fund. For the average person, United States Savings Bonds, a savings share, or certificate of deposit account comprise a savings fund.

Q. If the interest rate is 5 1/4% annually and a bank computes the interest quarterly, does the bank pay 5 1/4% interest each quarter?

A. No, the banks pay a proportion of the annual interest rate each quarter. In the example, the bank pays 1.312% each quarter (5 1/4% ÷ 4 quarterly pay periods.)

Q. What are the proportions that a bank uses for computing interest compounded monthly, daily?

A. All banks use a standard proportional rate of 1/12 of the annual interest rate for computing a monthly compounded interest rate. For a daily compounded interest rate they use a standard proportion of 1/360 or 1/365 of the annual interest rate.

Q. Do all banks use the same methods and rates for determining the amount of interest to be paid on an account?

A. No, bank management determines what rate of interest the bank will pay, the frequency of compounding, and the bookkeeping method. The maximum amount of interest that banks can pay is restricted by the regulatory agencies. There is, however, no restriction on the minimum rate of interest they may pay. Managerial decisions and competition within a banking district determine what rate of interest each bank will pay. The greater the competition within a given area (as exists in a metropolitan area) the greater the variety of services and the higher the interest yields.

Q. What are the different types of savings accounts?

A. Regular passbook savings accounts, day of deposit/day of withdrawal, and time deposit accounts.

Q. How do they differ?

A. A regular passbook savings account is an account ordinarily permitting you to deposit and withdraw money at any time.* Dividends are not paid on amounts withdrawn during any dividend period, unless the withdrawal occurs during the last three business days of the period.

A time deposit account or CD account (certificate of deposit) refers to a deposit for a specified period of time at a fixed rate of interest. It is a contract with the bank, and may be evidenced by a passbook or certificate.

A day of deposit/day of withdrawal account is an account ordinarily permitting you to withdraw your money at any time and receive interest up to the date of withdrawal. You should be aware that if you have such an account at a savings bank or savings and loan, interest on your account may be paid only at the end of each quarter. Most banks require that you keep a minimum balance in your regular or day of deposit/day of withdrawal account to the end of the quarter.

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*Deposits made during the first 10 calendar days of the month earn dividends from the first of the month.

Q. Why doesn't everyone put his savings in a time deposit?

A. It is very important to note that a time deposit is different from a savings account, because it is a contract in which you agree in writing to place your money on deposit for a specific period of time at a fixed rate of interest. These periods of time range from 90 days to 7 years or more and because they are contracts upon which the banks rely, if you withdraw your monies before that "maturity" date you must, under Federal regulations, pay a substantial penalty.

Q. What are the advantages and disadvantages of a time deposit account?

A.

Advantage	Disadvantage
A higher rate of interest.	You are "locked in" for the period of the contract which may run for 7 years or more. If you need money before then you must pay a substantial penalty for breaking your contract with the bank. Also, the contract may contain a provision that you cannot withdraw any funds without the consent of the bank.

Q. What are the advantages and disadvantages of a savings account?

A.

Advantage	Disadvantage
Flexibility of ordinarily being able to withdraw your money at any time.	In return for flexibility, you receive a lower rate of interest since the bank must be prepared at all times to pay you your money.

Q. Are time deposits as safe as savings deposits?

A. Yes, at any Federally insured bank or savings and loan institution each type of account is insured up to $40,000 per depositor.

Q. If a person decides to open a time deposit, what period should he choose? 90 days? Seven years? Or something in between?

A. This depends on your particular circumstances. If you are reasonably certain that you will not require your funds for a long period, then perhaps you might consider a four to seven-year contract and earn the higher rates. If you might need your money sooner a short-term deposit or a savings account would be appropriate.

Q. What is the difference between rate of interest and effective yield?

A. Effective yield results from the compounding of interest on a daily, quarterly, etc. basis for one year. In other words, the payment of interest on interest.

Q. What is effective yield?

A. The highest yield figure results from the "compounding of interest" on a daily, quarterly etc. basis for one year. In other words, the payment of "interest on interest."

Q. What does the savings account yield, 5 1/4% or 5.47%?

A. If the bank compounds daily and you leave your money on deposit for one year, you get 5.47% (the "effective yield").

Q. What are the highest "effective yields" now available on consumer deposits?

A. The following table shows the highest "effective yields" now available:

Savings Banks & SLA's		Commercial Banks
Yields	Type Account	Yields
5.47%	Savings Account	5.20%
6.00	90 day to 1 year	5.73
6.81	1 year to 2 1/2	6.27
7.08	2 1/2 to 4 years	6.81
7.90	4 years and over	7.63

Q. The table shows the highest effective yield that can be paid—can this only happen when the bank compounds the interest daily?

A. Yes.

Q. What are the effective yields if a bank compounds the interest annually, semi-annually, quarterly, or daily?

Savings Banks & Savings & Loans
Factor 365/360

Type of Account	Interest Rate	Daily	Quarterly	Annually
Savings	5 1/4	5.47	5.43	5.25
90 - 1 yr.	5 3/4	6.00	5.96	5.75
1 - 2 1/2	6 1/2	6.81	6.75	6.50
2 1/2 - 4	6 3/4	7.08	7.02	6.75
4 years +	7 1/2	7.90	7.82	7.50

Commercial Banks
Factor 365/360

Type of Account	Interest Rate	Daily	Quarterly	Annually
Savings	5	5.20	5.17	5.00
90 - 1 yr.	5 1/2	5.73	5.69	5.50
1 - 2 1/2	6	6.27	6.22	6.00
2 1/2 - 4	6 1/2	6.81	6.75	6.50
4 years +	7 1/4	7.63	7.56	7.25

Q. Can a person put money into a 4 year time deposit and in a year or so withdraw from it?

A. That depends on the bank and the terms of your time deposit contract. If withdrawal is permitted, Federal regulations require that you pay a minimum penalty. If you purchased the time deposit after July 5, 1973, the minimum penalty would be as follows:

- the rate on the amount you withdraw would be reduced to savings account rate and
- you would forfeit 3 months' interest.

Q. Would you give me an example?

A. Let's say you go to a savings bank and purchase a $5,000, 4-year time deposit with a rate of 7 1/2%. Exactly one year from now you want the entire $5,000. The normal interest accrued on $5,000 after one year at 7 1/2% would be about $395. But because you are withdrawing your money after only one year, you would receive only about $206 (5 1/4% of $5,000 minus 3 months' interest at that rate.) In other words, you would forfeit about $189.

Q. Suppose the bank has already paid me my $395 interest. Will the bank deduct the penalty from the principal? In other words, take it right out of my own money?

A. Yes, under the law the bank must deduct the penalty from the principal if you have already received the interest. Thus you would receive only $4,811 instead of the full $5,000.

Q. What if I opened a time deposit account before July 5, 1973 and I cash it in before maturity?

A. A somewhat different penalty would apply. First, you'd have to show that you needed the money - for example, to pay for a medical emergency. Second, if a loan against your certificate cannot be arranged, you'd forfeit 3 months' interest under the minimum penalty.

Q. Why does it make a difference whether I made the deposit before or after July 5, 1973?

A. Because on July 5, the Federal bank agencies issued new regulations covering penalties. In addition, to requiring a stiffer penalty, the requirement of need was dropped.

Q. What if I don't want to cash in my time deposit, but just want to convert it to one that pays a higher rate? For example, I have a 6% certificate and now want to convert it to a 7 1/2% certificate?

A. You could have converted to a higher rate before September 10, and the bank was not then required by regulation to impose a penalty. But after September 10, conversion of a time deposit is subject to the same minimum penalty as a "premature withdrawal."

Q. Can I borrow on the security of my time deposit account?

A. Yes, if your bank is willing to loan you the amount you need, secured by your certificate. However, Federal and state regulations require that the interest rate on your loan must be at least 2% above the rate on your certificate (in a savings and loan the difference must be at least 1%).

Q. Who can I contact for additional information about the various types of bank deposit accounts?

A. Contact your bank or the Banking Department's new Consumer Affairs Division in New York City.

Q. Why establish a savings account if other types of investments earn higher interest?

A. A savings account with its steady growth and lack of risk is usually the starting point of every personal financial program for a number of reasons. Safety is one, assured by experienced management, modern physical safeguards, insurance, internal audits, and government supervision. The interest rate isn't the whole story, either. Compounded interest, which means paying interest on interest as well as on principal, provides a "snowballing" effect in earnings. The convenience of a savings account at your bank permits savings with greater regularity than other forms of investment might allow, and the availability of any or all of the funds should they be needed is a final advantage.

Q. In a joint account, who reports the taxable interest?

A. The one whose money it actually is. In a joint account, usually one person deposits the money even though the name of another person is also on the account. At the time the account is opened, only one of the account holders' social security numbers will be listed for reporting interest.

Q. How large an emergency fund should a family have?

A. An emergency fund should maintain the family from three to six months without any other income, and this possibility can be provided for if about 7% of take-home pay is always put into savings. You may already have savings you haven't considered such as cash value of life insurance, equity in your home through mortgage payments, contributions to pension funds, and social security credits. But these are long-range savings; a cash emergency fund is still essential.

Q. What is a good way to build a savings account?

A. Use any "extra" income received strictly for savings. This could include interest, gifts, and inheritance, pay for some unexpected overtime or other extra work, a raise, a bonus, or the additional take-home money that turns up after the wage earner has reached the cut-off point for social security deductions.

Q. Is money put into a child's savings account by a parent taxable?

A. Currently each parent can give each child up to $3,000 a year tax-free. The funds could be placed in a savings account for the child, and the interest earned each year would be taxable for the child, not the parent, as long as the account is listed only in the child's name.

Q. Will my bank put money into my savings account automatically?

A. Most commercial banks provide an automatic fund transfer service to shift funds from your checking to savings accounts. You can specify how much money and at what intervals your automatic deposits should be made.

Q. In a joint bank account, in case of death, can the money be given to the survivor?

A. Yes, but it will take a little time. If the amount of all accounts on which the deceased was a signer, either singly or jointly is less than $2,000, the funds in joint account may be released to the survivor immediately. There are other special arrangements which may be made to release funds in an emergency situation with the approval of a bank officer.

REVIEW QUESTIONS

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Why is it necessary to plan for Systematic Savings?

What types of financial institutions accept savings?

Why is the bookkeeping method a bank uses important?

How many different methods are there?

How does the low balance or highest continuous balance method work?

How does the first-in, first-out beginning balance method work?

How does the last-in, first-out method work?

How does the day-of-deposit to day-of-withdrawal interest method work?

It seems that the day-of-deposit to day-of-withdrawal method would pay the most interest. Is this right?

What is a grace period and how is it associated with interest paid on savings accounts?

Why is the grace period important?

How do consumers find out what bookkeeping method is used by the banks?

How often can interest be paid on the various types of accounts?

Why is there this difference?

What is compounded interest?

How do the banks compute the continuously compounded interest rate?

Who pays the most for your savings?

Can these interest rates be changed?

How do savings acquire "grow power"?

How do we decide where to put savings?

If the interest rate is 5 1/4% annually and a bank computes the interest quarterly, does the bank pay 5 1/4% interest in each quarter?

What are the proportions that a bank uses for computing interest compounded monthly, daily?

Do all banks use the same methods and rates for determining the amount of interest to be paid on an account?

What is the difference between rate of interest and effective yield?

What are the different types of savings accounts?

How do they differ?

Why doesn't everyone put their savings in a time deposit?

What are the advantages and disadvantages of a time deposit account?

What are the advantages and disadvantages of a savings account?

Are time deposits as safe as savings deposits?

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What are the highest "effective yields" now available on consumer deposits?

The table shows the highest effective yield that can be paid—can this only happen when the bank compounds the interest daily?

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Suppose the bank has already paid me my $375 interest. Will the bank deduct the penalty from the principal? In other words, take it right out of my own money?

What if I opened a time deposit account before July 5, 1973 and I cash it in before maturity?

Why does it make a difference whether I made the deposit before or after July 5, 1973?

What if I don't want to cash in my time deposit, but just want to convert it to one that pays a higher rate? For example, I have a 6% certificate and now want to convert it to a 7 1/2% certificate.

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HOME MORTGAGES - EXAMPLE

After paging through the local newspaper and registering with a number of real estate agencies, Ted and Jean Warren were convinced that the house they were looking for would have to have three bedrooms and be located in the immediate vicinity of where they were presently living. Their budget limited them to a maximum of $35,000. Ted, a furniture salesman in a downtown department store, earned $12,500 annually plus a 10% commission on all sales. Jean worked part-time at a nearby bakery earning $6,500 per year, which went directly into their savings account, while Ted's salary went toward the expenses of everyday living and three growing children. Six thousand dollars of their savings was put aside for the expenses involved in purchasing the house; the additional $500 was maintained in the savings account as a cushion for a rainy day.

From one real estate agent they learned that they would need a 10% cash down-payment and should allow another $1,500 for lawyer fee, closing fee, title search and first year property taxes. If the home they purchased needed any immediate repair or if they had the option of purchasing appliances, furniture or buying up any oil left in the oil tank from the previous owner, Ted and Jean should allow an additional $1,000 for these extraneous expenses. Their home owner insurance policy for the first year should be about $250 making a total of $2,750, before down-payment.

The price of the house ($35,000) less the 10% down-payment ($3,500) would be $31,500--the amount of the mortgage. They decided to acquire their mortgage through the General Savings bank where they maintained their savings account. Mr. Morgan, the Mortgage Officer, advised them of the length of their mortgage (30 years) and a breakdown of what their monthly mortgage payments at 8 1/2% would be - $242.23. Total payments would amount to $87,202.80 of which $31,500 would be the return of principal and the balance would be interest charges of $55,702.80. If the Warrens are required to make escrow payments, an additional monthly sum would be required.

QUESTIONS AND ANSWERS

Q. What is a mortgage loan?

A. A mortgage loan is a special type loan granted to purchase real estate. Such loans are secured by the value of the purchased property. Mortgage loans are usually for long term (20 years or more) and in relatively large amounts.

Q. From whom can mortgage loans be obtained?

A. In New York State, the primary mortgage lenders are savings banks, savings and loan associations, and commercial banks.

Q. Are there different types of mortgage loans?

A. Yes. There are three basic types:

(a) Conventional loans - where the loan is granted directly by the institution;
(b) Federal Housing Administration (FHA) loans - where the funds are advanced by the institution under the requirements of the FHA and the bank is guaranteed payment by the FHA in case of default;
(c) National Servicemen's Readjustment Act (GI) - where funds are advanced by the institution but a percentage of the loan is guaranteed by the Federal government.

Q. How much can I borrow and what are the rates of interest?

A. The maximum amounts which can be borrowed and the maximum interest rate (currently 8 1/2% in New York State) are controlled by law. Generally, a borrower is limited to 75-80% of the appraised value of his property. In some special cases a person can borrow up to 95% of the appraised value of the property, with a maximum of $50,000, provided these loans are privately insured.

Q. Can I borrow less than 75-80% of the appraised value of the property?

A. Yes. A borrower can make a larger down payment which would result in a lower monthly payment on his mortgage.

Q. What are some of the problems in borrowing?

A. The larger the amount and the longer the term of the loan the greater the amount of interest to be repaid.

Amount Borrowed	Rate	Term	Monthly Payment	Total Paid Over Term	Total Interest Cost
$20,000	8 1/2%	10 years	$247.98	$29,757.60	$ 9,757.60
$20,000	8 1/2%	20 years	$173.57	$41,656.80	$21,656.80
$20,000	8 1/2%	30 years	$153.79	$55,364.40	$35,364.40

Q. How do banks determine how much they will lend to whom?

A. Banks are permitted to make their own determination as to how much and to whom they will lend. Usually they expect a person to be regularly employed and his gross week's earnings to equal or exceed one month's mortgage payment, which includes interest, principal, and escrow.

Q. What is escrow?

A. Escrow is the term applied to the method where a bank takes additional funds monthly from the borrower and these funds are used by the bank to pay real estate taxes, water bills, insurance, etc. Under current law banks are required to pay 2% interest on escrow funds.

Q. Are there any additional costs involved in obtaining a mortage?

A. Yes. There are a number of costs, referred to as closing costs. Banks require that a borrower pay for a title policy (proof of ownership of the property), mortgage tax, attorney fees, recording fees, etc. Also there may be adjustments between the original owner regarding real estate taxes, water, fuel, insurance, etc.

Q. Can I prepay my mortgage?

A. Yes, subject to certain penalties if the mortgage is prepaid within the first year, a loan can be paid at any time.

Q. What happens if I fail to make my payments as required?

A. The bank can foreclose on your property, sell the property, and satisfy your loan. Any additional funds received from the sale would be paid to you.

Q. What is a Loan Fee, a Point, Charge?

A. In mortgage loan financing a fee or charge is sometimes collected from the borrower by the lender upon closing of the loan. Such charges may be specifically identified for services rendered, such as credit check, appraisal fee, filing fees, attorney's fees, et al. In other cases, it would not be detailed but merely be a fee for granting the loan. In New York State such fees would be considered as interest unless qualifying as a reasonable charge as prescribed in General Regulations of Banking Board Part 4. Points is an expression given to the amount of discount which is levied against mortgage loan proceeds. When the buyer (borrower) suffers this reduction in loan proceeds, it must be considered as interest. The seller may be required to absorb this discount; in this case the provision of General Regulations of Banking Board Part 4 does not apply.

Q. What is a prepayment penalty?

A. The prepayment of a debt before it actually becomes due. One use of the term in banks is the prepayment penalty on mortgages; for example, the mortgagor may be required to pay a penalty based on a percentage of the mortgage when it is paid off prior to maturity. The penalty is exacted when a mortgaged home is sold during the life of a mortgage, or when a mortgage is refinanced by the mortgagor with a new mortgage. But this penalty is usually only applicable during the first few years of the mortgage.

Q. What is an FHA Mortgage Loan?

A. An FHA Mortgage is a Federal Housing Administration insured-guaranteed loan. A savings and loan association may offer the full range of mortgages permitted under FHA and VA regulations. On conventional mortgages, loans of 80% of appraised value on improved property and 60% on land, located anywhere in the United States -- 95% of appraised value on one and two family dwellings located in New York State, are permitted.

Q. What does MGIC do?

A. Mortgage Guaranty Insurance Corp. will sell to the purchaser of a home an insurance policy that guarantees payment of the remaining balance of a mortgage should he die or become disabled at any time before the mortgage is fully paid off. MGIC - Mortgage Guarantee Insurance Corportation is a private insurance company which offers credit insurance to mortgagees. In New York State lenders are permitted to avail themselves of such insurance on mortgage loans which are 90% or more of appraised value. The lender is insured up to the extent of 20% of the total loan. The borrower pays the premium. Other than serving as an inducement for the lender to grant the mortgage, the consumer benefits little from MGIC. The cost of the loan to the consumer is increased by the insurance premium which in effect guarantees the lender repayment in the event the borrower defaults on his mortgage.

Q. What does MGIC mean for the consumer?

A. It means that a family which is dependent on the earned income of one member of the family in order to meet its monthly mortgage payments can be assured that if that person is deceased or becomes accidentally disabled, the home would not be lost.

Q. How are mortgages useful?

A. The American style of mortgage lending, featuring low equity, long terms, and reasonable interest rates, has permitted a large proportion of our population to own the homes in which they live. Also of equal import is the fostering of the home building industry which has a considerable impact on the general economic well-being of the nation. Mortgage financing has encouraged the building of multiple dwellings and other commercial structures, thereby providing living quarters for our urban population and jobs with the commercial enterprises housed in such commercial properties.

Q. Why should a high school student be interested in learning about home mortgages?

A. While high school students generally are not home buyers, a number of young people do buy a home within a few years after graduation from high school. Even those who go on to college will eventually face a decision as to whether to buy their own home or rent. For most people, the purchase of a home is the most significant investment they will ever make and quite likely the best financial investment they will ever make. It is important for young people to realize the potential value of home ownership and begin to plan for a home purchase. Those who own their own home gain personal satisfaction by living in property which belongs to them. In addition, home ownership is a very useful hedge against inflation (as land and home values tend to rise during inflationary periods). Further, over a period of years a mortgage on a home is eventually paid off and thus the purchaser has made a very important contribution toward his retirement. Still another advantage is that the equity value which builds up while the mortgage is being reduced creates an opportunity to eventually refinance the mortgage and use the proceeds for some other investment, possibly a recreation home. In other words, a couple might buy a home with an initial mortgage of $20,000 and 10 years later because the home has increased in value and because the mortgage has been reduced, it may be possible to take out a new mortgage on the same home for $25,000 and use the difference as a down-payment on a vacation home site.

REVIEW QUESTIONS

What is a mortgage loan?

From whom can mortgage loans be obtained?

Are there different types of mortgage loans?

How much can I borrow and what are the rates of interest?

Can I borrow less than 75-80% of the appraised value of the property?

What are some of the problems in borrowing?

How do banks determine how much they will lend to whom?

What is escrow?

Are there any additional costs involved in obtaining a mortgage?

Can I prepay my mortgage?

What happens if I fail to make my payments as required?

What is a loan fee, a point charge?

What is a prepayment penalty?

What is an FHA Mortgage loan?

What does MGIC do?

What does MGIC mean for the consumer?

How are mortgages useful?

Why should a high school student be interested in learning about home mortgages?

BUSINESS LOANS

BUSINESS LOANS - EXAMPLE

Dan and George, juniors in high school, wanted to start a lawn care service for the summer. They were eager to earn some money but more importantly, they wanted to learn something about operating their own business. At first they considered borrowing the equipment they needed. Thinking it over, they realized they would need new, heavy duty equipment to cut the job time in half. With such equipment, they would be able to take on more jobs and earn more money. Together, Dan and George had $200 in savings. Since they knew this would not be enough to start a business, they decided to see if they could borrow the remainder.

George's father advised them to seek advice from a banker before starting a small business and before they borrowed any money. They agreed that this was a good place to start. The thought of talking to a banker had never occurred to either of them before, and they were excited about the possibility of talking business and borrowing money from a bank. George asked his father how they'd get to see a banker and he told them to just walk into any bank branch and ask for the manager. The next afternoon, the two boys went to the branch of a nearby bank, walked in and asked to see the manager, Mr. Williams, who, it turned out was delighted to see them. Mr. Williams complimented Dan and George for their venturesome business attitude and asked an endless number of questions. He wanted to know how many months they planned to operate, what kind of equipment they needed, where it could be purchased and the cost, how they planned to keep records, did they want a bank account, what was their estimated monthly income, per week, and per day, when and how they expected payment from customers, how would the work be divided, did they have a list of potential customers, had they asked the potential customers if they'd use this new service, what amount of competition they expected and how they'd make decisions when they might disagree. Mr. Williams said that before he'd approve a loan, the boys should be aware of the conditions of the loan which he spelled out as follows:

> The loan would be at 9% interest payable monthly. It would be reduced by $100 on June 25, July 25, August 25 and the remaining $700 would be due on September 25.
>
> The loan would be secured by all of the equipment which the boys planned to buy, and would be signed by both boys, with their fathers as co-signers.
>
> The boys would maintain a checking account at the bank. Proceeds of the loan would be used to open the account, all income would be deposited in the account and all expenses, including purchase of equipment, would be paid by check. They would each deposit $75 of their own savings into the account, and would be allowed to withdraw no more than $5 per week for the personal, non-business expenses of each until all of the loan was paid back.

The boys would agree to come into the bank each month as soon as they received their bank statement and review their financial progress with Mr. Williams.

Mr. Williams told the boys to think over their business proposition and conditions of the loan before they returned with a firm decision. After a week of discussions among themselves, pricing equipment, talking to friends and potential customers, and working over numbers, they reaffirmed their confidence in starting this business and along with their fathers, as co-signers, they returned to see Mr. Williams and told him that they wanted to borrow $1,000.

QUESTIONS AND ANSWERS

Q. Why is it important for high school students to learn about business loans?

A. While it is unusual for high school students to be involved in borrowing for business purposes it is nevertheless important for all of us to recognize the essential role bank credit holds in our society. The majority of students are from families whose parents work for business concerns or are engaged in business. Practically all businesses at one time or another borrow from banks. Most students will soon be employed by business concerns or will be engaged in business. Further, whether working in the finance office of a business or working for a bank, a career in finance is a worthwhile career with many advantages and should be considered by all students as a major area of opportunity. Many people work for someone else for a number of years before deciding to go into business for themselves. Learning how to obtain and use bank credit is an important step toward a successful career in business.

FOREIGN BANKING

FOREIGN BANKING - EXAMPLE

John and Larry have been planning a 3-week tour of Europe since their sophomore year in high school. Now that they're seniors and both 18 years old, they finally have enough money to make the trip.

John has been working after school and saving regularly at a local savings bank and getting 5 1/4% interest on his money. Larry has been saving in a special, monthly fee account at the local commercial bank getting 5 1/2% on his savings. Because Larry hasn't been able to save as much as John, he recently opened this special account which gives him some flexibility. Provided he continues to work, this account lets Larry borrow over $2,000 at a reduced cost, as a personal loan to pay for his trip expenses. He won't have to start repaying the loan until he returns to work after the trip to Europe.

After getting his passport in order, John took his cash and put it into travelers checks at the bank where he keeps his savings. Larry asked his bank branch manager to issue him an introductory letter of credit which he can use at any of the European branches of Commercial Trust. The proceeds of the $2,000 loan will be kept by the bank where Larry acquired the loan. When Larry needs money in Europe he will take his introductory letter of credit to any branch of Commercial Trust and present it to the branch manager. This will introduce Larry as a Commercial Trust customer who has set aside $2,000 in his local branch bank to draw on while in Europe.

QUESTIONS AND ANSWERS

Q. What foreign banking services are most valuable to consumers?

A. 1) Network of branches of American banks around the world
2) Travelers checks
3) Travelers letter of credit
4) Purchase and sale of foreign money

Q. Do American banks maintain branch offices in foreign countries?

A. Yes, branches of American banks are located in hundreds of major cities around the world. While your bank of account may not have a branch in a city which you might plan to visit, chances are that a correspondent of your bank will have a branch in such a city and assistance with travel plans would be made through the two banks.

Q. If one is traveling, what about using the services of a foreign bank rather than an American bank?

A. When traveling, it is a good idea to plan to use the services of both an American bank as well as foreign banks. When in a foreign country, branches of the bank of that country are as numerous as are bank branches in this country. You can walk into any branch to cash travelers checks or to exchange dollars for foreign money. A branch of an American bank would be visited for more important reasons, such as cashing a large check, drawing on a travelers letter of credit, or arranging introductions. The American branch can be a "friend" abroad if this is planned in advance.

Q. What are travelers checks?

A. A travelers check is a form of check especially designed for travelers or persons on vacation trips. Many of the large banks issue and sell their own travelers checks to customers planning such trips. The checks are preprinted in certain denominations, such as $10, $20, $50 and $100. The customer must sign his name on the face of each check in a designated place in the presence of an employee of the issuing bank. When the check is cashed at a distant point, the purchaser must again sign the check on its face. The bank, hotel, or other party cashing the check thereby has ready comparison of signatures for proper identification. The use of these checks protects purchasers from loss which might result from carrying large amounts of currency with them while traveling. The checks are readily accepted by banks throughout the United States, Canada and Europe.

Q. What is a traveler's letter of credit?

A. A traveler's letter of credit is an instrument issued by a bank to a customer preparing for an extended trip. The customer pays for the letter of credit and the bank issues the letter for a specified period of time in the amount purchased. The bank furnishes a list of correspondent banks where drafts drawn against the letter of credit will be honored. The bank also identifies the customer by exhibiting a specimen signature of the purchaser on the folder enclosing the list of correspondent banks. The purchaser may go to any bank listed, draw a draft against the letter of credit, and receive payment. Each bank that honors a draft endorses on the letter of credit: the date a payment was honored, the name of the honoring bank, and the amount drawn against the letter of credit.

Q. How does one get foreign money?

A. Many banks carry an inventory of the currency of major foreign countries and they will exchange dollars for foreign currency at a small discount. It is also possible to buy foreign currency at a bank branch located at an international airport. A few non-bank companies also specialize in dealing in foreign currency for the public and offices are located in major cities and at major international airports. It is also possible to wait until arriving in a foreign country to acquire the necessary foreign exchange. As always, it pays to compare charges of different banks and make sure that you are not overcharged. There is no fixed fee for exchanging foreign money and the charge will vary between institutions on a day by day basis.

Q. How does one pay for merchandise ordered from a foreign country?

A. Ordering merchandise from abroad creates a problem for the buyer who does not want payment to be made unless shipment is guaranteed and a problem for the seller who does not want to ship unless payment is guaranteed. A commercial letter of credit solves both problems. The buyer, through his own bank, arranges for a commercial letter of credit to be issued by a major international bank known to the bank of the seller. The buyer's account is immediately charged for the funds, but the funds are not released to the seller until he delivers proof of shipment of the goods. The seller is also protected by the fact that, prior to shipment of goods, he receives written notice from the international bank which guarantees him payment if documents certifying shipment of the goods are presented at the bank.

Q. Will anyone accept a check in a fore[illegible]try?

A. Without special arrange[illegible]ing a check in a foreign country would be very near[illegible]sible. On some trips abroad, travelers checks may be all [illegible]at is necessary for finances. In many cases, however, it will be advisable to arrange for the possibility of cashing a check at certain points along the way. This is why it is important to consult with a bank while planning for a trip abroad.

Q. What does one do with a foreign check?

A. Rather than deposit a foreign check in your account, your bank will send it directly to a foreign branch or correspondent located near the bank upon which the foreign check is drawn, for collection. This agent branch or bank, in turn, will present the check for payment. Assuming the check is paid, the funds are returned to your bank and credited to your account. You would, of course, be notified of this credit.

REVIEW QUESTIONS

What foreign banking services are most valuable to consumers?

Do American banks maintain branch offices in foreign countries?

If one is traveling, what about using the services of a foreign bank rather than an American bank?

What are travelers checks?

What is a traveler's letter of credit?

How does one get foreign money?

How does one pay for merchandise ordered from a foreign country?

Will anyone accept a check in a foreign country?

What does one do with a foreign check?

STUDENT LOANS

STUDENT LOANS - EXAMPLE

Nancy Wood, a resident of New York City, is entering her senior year at Central High School. She desires to attend the University of Michigan and arranges a conference with Mr. Johnathan Brown, guidance counselor.

In their discussion he mentions that decisions about applying to a specific school should not be made solely on the financial ability of an applicant. He explains that there are a number of ways students obtain funds for higher education and no matter where she was going she should explore all possibilities of scholarships, grants, and tuition assistance. Some of these might be available to her only if she entered a college located in New York State but many students from Central High who required additional help had applied for and been granted guaranteed student loans to attend approved colleges wherever they desired.

Mr. Brown had a folder from one of the local banks which outlined the steps involved for a student to apply for a loan made by that bank and guaranteed by New York Higher Education Assistance Corporation. Mr. Brown said that almost every commercial bank, savings bank, savings and loan association, and many credit unions participated in this program.

The folder stated that the qualifications for an applicant were that the student must:

1. Be a resident of New York State
2. Be a citizen or a permanent resident of the United States (if not a citizen a Declaration of Intention of being a citizen is required)
3. Be enrolled and in good standing in, or accepted for enrollment in, an approved college or vocational school
4. Have a sincere sense of moral obligation toward repayment of the loan.

Applications with instructions for completing would be available at any local bank. Mr. Brown advised Nancy that she obtain one and discuss the problem of meeting the costs of her higher education with her parents and with the financial aid officer at the college she selected.

Nancy said her family had an income of between $15,000 and $30,000.

Mr. Brown, by way of further explanation, offered examples of student assistance with which he had recently been involved. He cited a case of a young man who is a freshman attending SUNY at New Paltz and comes from a family with very little income. In addition to the grants and scholarships that he qualified for, he also obtained a guaranteed interest free student loan of $1,500. Mr. Brown said he was also acquainted with a student whose father is a wealthy industrialist but who is attending a high-cost medical school. He qualified for a guaranteed student loan with the requirement he pay the interest on the loan while in school.

Returning to Nancy's case, Mr. Brown said she might qualify for a partial interest subsidy of 4% while in school and therefore would have to pay only 3% interest annually. In the case of a $1,500 loan, this would amount to only $45 a year or $11.25 when paid quarterly. In all cases, during the repayment period after leaving school, students must repay the principal borrowed plus 7% interest.

Several months later Nancy was accepted at the University of Michigan. She arranged a meeting with Mr. Richard Roberts, financial aid officer, who discussed the scholarship and tuition grant programs available to students. In view of the family income, Mr. Roberts recommended a guaranteed student loan and advised her to have her family assist her complete an application for loan guaranteed by NYHEAC. He advised her that the maximum amounts to be borrowed under this program currently are:

$1,000 - Vocational program
$1,500 - Freshman and Vocational programs that have standard agreement with NYHEAC
$2,000 - Sophomore, Junior, Senior and 5th year (Pharmacy and Architecture) of a Bachelor's program
$2,500 - all graduate years

He emphasized that when she obtained the loan from the lender she selected she would enter into a contractual obligation requiring her to repay the total amount borrowed plus interest. Therefore, she should borrow only the amount she required to attend college.

Nancy and her parents completed the application for loan and sent it to the University of Michigan for certification. After completing the educational institution section of the application, Mr. Roberts signed the application and returned it to Nancy. She went to the First Bank and was sent to the student loan section where she discussed the application for a loan with Mr. Prescott Smith.

She said she was confident that due to the educational program she was entering she would be able to obtain an excellent position and would therefore be able to repay the loan. In addition, she recognized she would be required to pay some interest while in school.

Mr. Smith then pointed out her responsibility to keep First Bank aware of her progress in school and to report changes in address or in-school status which would make it possible for him to keep in touch with her. He pointed out that she would be paying interest below the market for the type of loan she was requesting but First Bank was also receiving subsidies from the government administered by NYHEAC so that they receive approximately the market rate on the loan they provide for her. In addition, Mr. Smith said First Bank has a continuing commitment to encourage young people to fully develop their potential through education. He said that by so doing they might have her as a customer who could seek additional services of the bank including a credit card, consumer loan, and deposit accounts.

Mr. Smith advised Nancy that First Bank would approve her application and would forward it to NYHEAC for guarantee. He advised her that within a short time NYHEAC should send her and the First Bank an approval notice. Prior to the time she left for college, she could arrange to obtain all or part of the loan approved for her freshman year.

QUESTIONS AND ANSWERS

Q. How do banks finance guaranteed student loans?

A. Banks are able to finance student loans by using their own deposits backed by government guarantees and subsidies which are administered by New York Higher Education Assistance Corporation (NYHEAC.). The government guarantees principal repayment plus a special allowance in case the prevailing rate of interest is higher than the 7% limit chargeable to the student. Additionally, during the period the qualifying student is in school all interest costs are covered by government subsidies.

Q. What are the limitations on guaranteed student loans?

A. The maximum amount a student seeking a Bachelor's degree can borrow is $7,500. This limit is increased to $10,000 for students seeking a higher degree. The maximum that can be borrowed in any one academic year is $2,500.

Q. Who can get a guaranteed student loan?

A. NYHEAC = (New York Higher Education Assistance Corporation).

To qualify for a NYHEAC loan a student must:

1. Be a resident of New York State
2. Be a citizen or a permanent resident of the United States. (If not a citizen a Declaration of Intention of becoming a citizen is required)
3. Be enrolled in, and in good standing, or accepted for enrollment in an approved college or vocational school
4. Have a sincere sense of moral obligation toward repayment of the loan.

Q. What are the costs involved?

A. During the period the student is in school no repayment of principal is required and no charge is made for interest payments for qualifying students. Nine months after graduation the student must begin his repayment program and a schedule is set up under which a portion of his monthly payment is applied to principal. During this period he is paying simple interest at the rate of 7% on outstanding principal balance. There are also guaranteed loans available for students who do not qualify for interest subsidies or who qualify for partial interest subsidy.

Q. Do they differ from bank to bank?

A. No, all banks treat the program alike as administered and supervised by New York Higher Education Assistance Corporation.

Q. Are loan costs as low as they should be?

A. Yes, the borrower is paying interest at a rate that is considerably below the market for this type of loan. The lending institutions receive the market rate from government subsidies administered by NYHEAC.

Q. Where can a student obtain a guaranteed student loan?

A. At a participating bank, usually serving the community in which the student resides.

Q. What is the rate of interest charged by the bank on a guaranteed student loan? Do these rates differ from bank to bank?

A. Student pays 7% simple interest when the loan becomes payable. During school and nine months thereafter, many students qualify for full interest subsidy, or for partial subsidy. In other cases, the student pays the 7% interest while in school and thereafter.

Q. What types of banks issue guaranteed student loans?

A. Commercial banks, Savings banks, Savings and Loan Associations, and Credit Unions.

Q. Can a student obtain a guaranteed student loan from a New York State bank if he or she is attending school in another state or country?

A. Yes, if attending a school approved under the program.

Q. Can any student borrow on a guaranteed student loan?

A. No, see qualifications required in question 3.

Q. How do student loans differ from grants and scholarships?

A. Student loans are contractual obligations requiring the borrower to repay the lender the amount advanced. Grants and scholarships do not have to be repaid.

REVIEW QUESTIONS

How do banks finance guaranteed student loans?

What are the limitations on guaranteed student loans?

Who can get a guaranteed student loan?

What are the costs involved?

Do they differ from bank to bank?

Are loan costs as low as they can be?

Where can a student obtain a guaranteed student loan?

What is the rate of interest charged by the bank on a guaranteed student loan?

Do these rates differ from bank to bank?

What types of banks issue guaranteed student loans?

What is the maximum a student can borrow on a guaranteed student loan?

Can a student obtain a guaranteed student loan from a New York State bank if he or she is attending a school in another state or country?

Can any student borrow on a guaranteed student loan?

How do student loans differ from grants and scholarships?

TRUST AND INVESTMENT
ADVISORY SERVICES

TRUST AND INVESTMENT ADVISORY SERVICES - EXAMPLE

Fred Alexander is 27 years old, married, has two children and is an electronics technician at a nearby plant owned by a large manufacturer of electrical equipment; he has been with the company for 6 years, his annual salary is $14,600.

Recently, Fred's grandfather, William Alexander, passed away and Fred was included in his will as a beneficiary of the estate. William Alexander provided in his will that the estate by divided as follows: 50% to be divided equally among his three children and 50% to be divided equally among his 8 grandchildren. He assets were valued as listed in the table below:

Home	$75,000
Vacation Home	24,000
Automobile	2,000
Proceeds of life insurance policy	25,000
1,000 shares American Tel & Tel stock	$45,000
Other stock	20,000
Bonds	30,000
Savings Account	10,000
	$231,000
50% =	$115,500
divided by 8 =	$ 14,437.50

Legal fees reduced the amount which Fred was to receive to $12,000.

Fred and his wife, Betty, decided to visit their bank to seek advice as to how this money might be invested wisely. At the bank, they spoke with an officer whom they knew who, in turn, introduced them to an officer of the bank's trust department.

Fred explained to the officer that he and Betty owned their house, which was about 1/2 paid for, a $15,000 life insurance policy, which he would continue to pay for each year until age 65, about $800 in savings and 10 shares of stock worth about $400.

The Trust Officer, Mr. McDonald, explained to them the services of the Trust Department and stated that the minimum account which would be accepted was $50,000. To Fred's surprise, however, Mr. McDonald was willing to discuss, extensively, with Betty and Fred their financial future. Two hours later, Betty and Fred left, having agreed to the following plan:

Their Day of Deposit/Day of Withdrawal savings account would be increased by $1,200 to $2,000. This would serve as an emergency fund for the future and the interest would be allowed to accumulate.

They would increase the life insurance policy on Fred by $10,000 to $25,000 and also take out a $10,000 policy on Betty. In case something should happen to Betty, Fred would need additional income to maintain a proper home for the children. Fred believed that he could meet the additional life insurance payments out of his earned income as he expected to continue to receive salary increases each year.

Fred owns about 10 shares of stock in the company he works for. A year ago, the Company set up a plan allowing employees to buy stock in the company on a payroll deduction plan. The plan provides that each eligible employee can contribute up to 10% of his salary to purchase the stock. The company sells the stock to employees at 15% below the average monthly price of the shares as traded on the New York Stock Exchange. Fred wanted to own more of the stock, so they agreed to buy 50 more shares at a cost of about $2,000. Fred would continue to contribute the full amount possible to the stock purchase plan in the future.

By buying stock, life insurance and a home, Fred believed and Betty and Mr. McDonald agreed, that he was saving all he could afford to save. Betty and Fred agreed to draw up a will, at a cost of $250, naming the trust department of Mr. McDonald's bank as executor of their estate should something happen to both of them.

All stock, life insurance, and the home were to be registered legally as jointly owned by Mr. Frederic C. Alexander and/or Mrs. Betty A. Alexander, meaning that if something should happen to one, ownership of these assets would automatically be transferred to the other, without any legal problem or expenses.

Betty and Fred would open a safe-deposit box at the bank to keep mortgage papers, stock certificates, insurance papers, etc. They would put $4,000 in a 1 year, 6% savings certificate at the bank. They would put $4,000 in a 4 year 7 1/2% savings certificate at a nearby savings and loan association.

Over the next year they agreed to learn something about the bond market with the idea that the $4,000 one year certificate could be reinvested in bonds, possibly yielding 7 1/2 to 8 1/2%.

Checking Account	$ 550
DOD/DOW Savings	1,200
Purchase stock	2,000
Pay for will	250
One year certificate	4,000
4 year certificate	4,000
	$12,000

QUESTIONS AND ANSWERS

Q. What is meant by the fiduciary power of a bank?

A. Every trust company shall have, subject to the restrictions and limitations contained in this chapter, the following powers:

1) To act as the fiscal or transfer agent of the United States, any state, municipality, body politic, or corporation; and in such capacity to receive and disburse money, to transfer, register and countersign certificates of stock, bonds, or other evidences of indebtedness or other securities, and to act as attorney in fact or agent of any person or corporation, foreign or domestic, for any lawful purpose.

2) To act as trustee under any mortgage or bonds issued by any municipality, body politic or corporation, foreign or domestic, and accept and execute any other municipal or corporate trust not prohibited by the laws of this State.

3) To be appointed and to act under the order or appointment of any court of competent jurisdiction:
(a) As guardian, receiver, trustee, or committee of the estate of any minor, lunatic, idiot, person of unsound mind, or habitual drunkard or in any other fiduciary capacity;
(b) As receiver, trustee, or committee of the property or estate of any person in insolvency or bankruptcy proceedings.

4) To be appointed and to accept the appointment of executor or of trustee under the last will and testament or administrator with or without the will annexed of the estate of any deceased person.

5) To take, accept and execute any and all such trusts, duties, and powers of whatever nature or description as may be conferred upon or entrusted or committed to it by any person or persons, or any body politic, corporation, domestic or foreign, or other authority by grant assignment, transfer, devise, bequest or other-

wise, or which may be entrusted, or committed, or transferred to it, or vested in it by order of any court of competent jurisdiction, or any surrogate, and to receive, take, manage, hold, and dispose of according to the terms of such trust, duty or power, any property or estate, real or personal, which may be the subject of any such trust, duty, or power.

Q. How is a bank trust department beneficial to you?

A. Most young people do not have an estate of sufficient size to justify paying a bank trust department to administer and manage. Most young people today, however, in many cases to their surprise, will accumulate a sizable estate through home ownership, life insurance, pension and retirement plans, payroll deduction, and other savings plans, and modest inheritance. Eventually, such an estate reaches sufficient complexity to require professional advice of some kind, very likely that of a bank trust department.

Q. Why do banks presently only accept large estates in trust?

A. Small trust accounts are usually not accepted by banks because the cost of handling the account will exceed the fees charged. A trustee has awesome responsibilities and to fulfill these responsibilities highly talented people must be employed—including attorneys, trust administrators, investment counselors, real estate managers, etc. A trustee will often be called upon to operate a small business.

Q. Can this be changed?

A. The New York State Banking Department is studying ways by which trust administration and personal financial planning services might be provided more efficiently and inexpensively. The Department is encouraging banks to find ways to handle small trusts and estates properly but at lower cost.

You can help by encouraging consumer interest groups, and government officials, as well as banks, to reduce the minimum size estate which banks are willing to accept.

REGULATORY AGENCIES

NEW YORK STATE BANKING DEPARTMENT

The Banking Department is charged with the administration of the laws relating to banks, trust companies, private bankers, savings banks, savings and loan associations, and other institutions to which the Banking Law is applicable. Its head is the Superintendent of Banks, who is also Chairman of the Banking Board.

The law requires the Department to examine into the condition and affairs of all institutions subject to its supervision at prescribed intervals.

In its supervisory capacity, the Department is given broad powers to enforce sound policies of bank management. The superintendent may issue an order to discontinue unlawful or unsafe practices, and for repeated violations of law or the pursuit of unsound policies he may cite facts to the Banking Board, which after a hearing, may for cause remove from office directors, trustees, or officers of banking institutions.

Under certain conditions the Superintendent may take possession of a banking institution and liquidate it for the benefit of depositors and other creditors.

A variety of institutions are subject to the regulation of the Department. The Department currently supervises a financial industry with total assets of approximately $193 billion. Included therein are 126 commercial banks with assets of $94 billion; 120 mutual savings banks with assets of $58 billion; 92 savings and loan associations with assets of $4 billion; 60 foreign branches, agencies and investment companies with assets of $20 billion; and other investment companies with assets of about $13 billion. The Department also licenses and regulates 563 consumer finance companies, 294 licensed check cashers, and 233 employee welfare funds.

The Department is organized into eight divisions, including a commercial banks division, a savings banks division, a savings and loan division, a sales finance division, a legal division, and a new consumer affairs division.

Legislative approval was granted early in 1973 to establish the new Consumer Affairs Division. The primary function of this Division is to respond to consumer complaints promptly and effectively and to project itself to the public as the place to come with a complaint. The Deputy Superintendent and his staff meet with aggrieved consumers, participate in consumer education activities, prepare useful consumer publications, propose needed legislation, and conduct investigations in connection with situations indicating a pattern of abuse or a problem of unusual complexity.

FEDERAL RESERVE SYSTEM

The Federal Reserve System is:

The title given to the centralized banking system of the United States as established by the Federal Reserve Act dated December 23, 1913. Refinements have been made in the system by the enactment of the Bank Act of 1933 and the Bank Act of 1935, which became law as of August 23, 1935. The functions of the Federal Reserve System are as follows:

1. To regulate the money supply in the United States
2. To hold the legal reserves of member banks
3. To furnish currency with complete elasticity for the economic demands of the members of the Federal Reserve System, the United States government, and the general public

4. To effect telegraphic transfers of funds throughout the United States
5. To promote and facilitate the clearance and collection of checks for member banks and nonmember banks
6. To examine and supervise member banks chartered by the various states and to obtain periodic reports of condition from them
7. To collect and interpret economic information bearing on credit problems
8. To act as the fiscal agents, custodians of government funds, and as the legal depositories for the United States Treasury and all other government agencies.

The Board of Governors, the governing body, is composed of seven members, who are appointed by the President of the United States, with the confirmation and approval of the Senate for a term of 14 years each. The President of the United States has the power to designate one member as chairman and another as vice-chairman for a term of four years each during their term of office.

THE FEDERAL DEPOSIT INSURANCE CORPORATION (F.D.I.C.)

The Federal Deposit Insurance Corporation (F.D.I.C.) was created by an Act of Congress in the 1930's. Prior to that time, during periods of economic crises, numbers of banks inevitably would fail, and customers of these banks would lose part, or all of their deposits. On December 31, 1972, 98.4 percent of all commercial banks in the United States, and over two-thirds of all mutual savings banks participated in Federal deposit insurance. This means that the deposits of customers at F.D.I.C. member banks are insured up to $40,000 per depositor. If the bank becomes bankrupt, the customers are protected.

The F.D.I.C. also examines the operations of its members periodically to insure that management is sound and performing satisfactorily.

FEDERAL HOME LOAN BANK

Federal Home Loan Bank regulates insured savings and loan associations. Its range of influence is unique because it combines the functions of a central bank, chartering agency, deposit insurer, and regulator all under one authority. Its supervision directly affects all associations in the United States which have F.S.L.I.C. insurance regardless of whether the association operates under Federal or State charter, is stock or mutually organized.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

The Federal Savings and Loan Insurance Corporation is an agency of the United States Government that functions as an arm of the Federal Home Loan Bank System. The F.S.L.I.C. offers insurance of deposits of up to $40,000 for each "interest" to all depositors of member savings and loan associations. What this means to individuals is assurance that, in the event of failure of any insured association, this Federal agency will make good depositors' losses to the extent of $40,000 each.

BANKING TERMINOLOGY

NOTES TO INSTRUCTOR

This section is made up of words and terms commonly used in dealing with financial institutions—each is defined in detail. Since there are no review questions at the end of this chapter, the words or phrases themselves might serve as questions.

ACCOUNT ANALYSIS. The process of determining the profit or loss on a checking account.

ACCOUNTS RECEIVABLE. Money owed a business enterprise for merchandise bought on open account. (i.e., without the giving of a note or other evidence of debt.)

ACCRUED INTEREST RECEIVABLE. Interest earned by a bank but not yet collected.

ACTIVE ACCOUNT. In the parlance of a bank bookkeeping department, an active account is one on which there is current activity. (i.e., one which has a posting of checks or deposits on the day upon which it is referred to as an active account.) An active account may also denote an account which has unusual or excessive activity over a given period.

ACTIVITY CHARGE. A service charge imposed on checking account depositors by banks for checks or deposit activity, where the average balances maintained are not enough to compensate for the cost of handling the items.

ADVICES. The term "advices" connotes several types of forms used in the banking field. Generally speaking, an advice is a form of letter that relates or acknowledges certain activity or result with regard to a depositor's relations with a bank. Examples are: credit advice, debit advice, advice of payment, advice of execution, etc.

ALTERATION. Any change by erasure or other means in the date, amount, or payee of a check, note, or other negotiable instrument. Also any change on the bank's books or records by similar means. Necessary alterations are best made by crossing out the incorrect entry and writing the correct one above or below, thus leaving the incorrect entry visible and open to investigation.

ALTERED CHECK. One on which the date, payee, or amount has been changed or erased. A bank is responsible for paying a check as it is originally drawn; consequently, it may refuse to pay a check which has been altered.

AMORTIZATION. The gradual reduction of a debt by means of equal periodic payments sufficient to meet current interest and liquidate the debt at maturity. When the debt involves real property, often the periodic payments include a sum sufficient to pay taxes and hazard insurance on the property.

ARBITRAGE. The purchase of foreign exchange, stocks, bonds, silver, gold, or other commodities in one market for sale in another market at a profit. This requires highly skilled arbitragers and quick action.

ASSETS. Anything owned by an individual, a business, or a bank which has commercial or exchange value. Assets may consist of specific property or claims against others, in contrast to obligations due others. See also *"Liabilities."*

ASSIGNED ACCOUNT. An account, such as an accounts receivable account, which has been assigned to a bank as security for a loan by the borrower. In theory, the bank actually takes possession of the account pledged, and when this account is paid by the borrower's customer, it should be paid directly to the bank to reduce the borrower's loan. In actual practice, and in order not to jeopardize the relationship between the borrower and his customer (whose account has been pledged), the bank will allow the account to be paid to the borrower in the normal manner, and rely upon the integrity of the borrower to apply this payment against the loan balance.

ATTACHED ACCOUNT. An account against which a court order has been issued, permitting disbursement of the balance ONLY with the consent of the court.

AVERAGE COLLECTED BALANCE. The average collected balance of a depositor's account is usually determined on a monthly basis. It is arrived at by adding the daily balances of the account, and deducting the sum of the float, or uncollected items, from the former total, and dividing the remainder by the number of days in the month.

BANK EXAMINATION. An examination made by representatives of a Federal or state bank supervisory agency. Its purpose is to make certain that a bank is solvent and is operating in conformity with banking laws, and to correct any errors in management or operations that may be found to exist.

BANK EXAMINER. A representative of a Federal or state supervisory agency, who examines the banks under his jurisdiction with respect to their financial condition, management, and policies.

BANK STATEMENT. A statement of a customer's account which the bank gives him periodically, usually monthly, for his information. It shows all deposits made and all checks paid during the period and balance, and is accompanied by the customer's cancelled checks.

BOOKKEEPER. The person who makes entries on the bank's record of a depositor's account, whether by hand or by machine. See also *"General Bookkeeper."*

BOOKKEEPING DEPARTMENT. A department of a bank where the records of all depositors' checking accounts are posted and kept. In the larger banks there may be found several bookkeeping departments, such as: commercial, corporation accounts, special checking, and general ledger.

BORROWER. Any *legal entity* (see definition)—an individual, proprietorship, partnership, corporation, or organization—who obtains funds from the lender by the extension of credit for a period of time for a consideration. The borrower signs a note as evidence of the indebtedness. See also *"Negotiable Instrument"* and *"Maker."*

BRANCH BANKING. Any bank which maintains complete banking facilities in offices away from its main office, or head office, may be considered as carrying on branch banking business. The separated units are called branches or offices, and are permitted among the various classes of banks in the several states under certain conditions.

CANCELLED CHECKS. A check which has been paid and charged to the depositor's account, then perforated with the date of the payment and the drawee bank's name or clearing house number. These checks are retained in the files of the bank until a statement of the depositor's account is sent to him, at which time the cancelled checks are submitted for his acceptance and approval.

CAPITAL. The amount subscribed and paid by stockholders to permit a bank to function as such. Capital requirements of banks, both national and state, are governed by the size of the community in which they are chartered to operate. Supervisory authorities determine the amount of capital necessary for a bank to start operations in a given locality. In all cases, capital must be fully paid in cash before a bank is allowed to open for business. Shareholders of national banks and some state banks must pay a premium for the capital stock purchases, this premium applied to the establishment of a paid-in surplus. See also *"Surplus."*

CASH. An all-embracing term associated with any business transaction involving the handling of currency (paper money) and specie (metal coins). See also *"Currency"* and *"Legal Tender."* The accounting terms "cash on hand" and "cash in banks" express the availability of money in the statements of businesses. A deposit ticket contains places to record "cash" deposited as distinguished from "checks" deposited. To "cash a check" means to convert a check into money. A purchase made for cash means a completed transaction fully paid by an exchange of money for another asset, as distinguished from a "charge of credit transaction" where the purchaser takes possession of the asset with the understanding that it will be paid for in cash at a future date. In the broader sense, the term "cash" as used in banks, includes any item for which the bank will immediately credit for deposit, or payment in currency or specie.

CASHIER. An officer of a bank who is charged with the custody of the bank's assets, and whose signature is necessary on official documents. He may not delegate this authority, so that in large banks where his duties are too numerous, assistant cashiers are appointed by the board of directors to perform specific duties.

CASHIER'S CHECK. A bank's own check draw upon itself, and signed by the cashier, or other authorized official. It is a direct obligation of the bank. It is used to pay obligations of the bank; to disburse proceeds of a loan to the borrower in lieu of credit to his deposit account; and is sold to customers for remittance purposes where a personal check is not acceptable.

CERTIFICATE OF DEPOSIT. A receipt payable to the depositor for funds deposited with a bank. Certificates of deposit are transferable, and may be endorsed to other parties and negotiated like a check or other negotiable instrument. Two classes of certificates are issued—*demand* and *time* (see definitions).

CERTIFICATE OF DEPOSIT (DEMAND). A receipt issued for funds deposited with a bank, and payable on demand of the holder. These receipts do not bear interest, and are used principally by contractors and others as a guaranty of performance of a contract, or as evidences of good faith when submitting a bid for the sale of merchandise to a governmental agency. They may also be used as collateral for a loan.

CERTIFICATE OF DEPOSIT (TIME). A receipt for funds deposited with a bank, payable to the holder at some specified date (not less than 30 days after issuance) and bearing simple interest. Banks may require notice (not less than 30 days) before repayment.

CHATTEL MORTGAGE. A mortgage on movable goods or equipment. Chattel mortgages are quite extensively used in two forms of bank financing: for consumer credit financing of automobiles, refrigerators, television sets, other household appliances, etc.; and for the financing of railroad equipment.

CHECK. The Federal Reserve Board defines a check as: "A draft or order upon a bank or banking house purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to a certain person therein named, or to him or his order, or to bearer, and payable instantly on demand." It is a *negotiable instrument* (see definition) and as such must fulfill certain conditions. It must contain the phrase "Pay to the order of;" the amount shown on the check's face must be clearly discernible; and it must have the signature of the drawer. Checks are usually dated, but the lack of a date does not impair its negotiability.

CHECK BOOK. A book of blank checks given to depositors to permit them to withdraw funds on deposit in their checking accounts. Provision is made on the stub for recording deposits as well as the amounts of the checks drawn. The depositor is thus able to keep a complete record of his account so that it may be reconciled with the statement which the bank renders.

CHECKING ACCOUNT. An account subject to check against funds on deposit.

CHECK ROUTING SYMBOL. A device to facilitate the handling and routing of transit items through banks all over the United States. The check routing symbol is the denominator number of a fraction, the numerator being the A.B.A. transit number. The entire fraction is located in the upper right-hand corner of a check. The check routing symbol is composed of three or four digits. The hundreds (100 through 1200) represent the Federal Reserve District in which the bank is located; the next digit represents the Federal Reserve bank or branch through which the item should be cleared; and the last digit represents the deferred credit availability of the item according to the bank's location. An example of a check routing symbol:

$$\frac{83\text{-}1016}{1011}$$

83 is the prefix number for the State of Kansas; 1016 is the A.B.A. suffix number for the Richland State Bank; in the denominator the 10 shows that this bank is in the tenth Federal Reserve District; the next 1 means that the item is cleared through the Federal Reserve Bank of Kansas City, Missouri; and the last 1 designates that items drawn on the Richland State Bank have one day availability out of Kansas City.

CHIEF CLERK. Usually a junior officer or a senior clerk whose duties consist of handling various transactions of an important nature, such as notary work, protests, wire transfers, and technical negotiable instruments. In branch banking, the chief clerk is a junior officer who is charged with the supervision of personnel and the general operations of the branch. He is the administrative assistant to the Branch Manager.

CHRISTMAS CLUB ACCOUNT. A form of savings account whereby a depositor saves a regular amount each week for the purpose of purchasing Christmas gifts. The club usually runs for fifty weeks, and the bank issues a check to the depositor about the first week in December for the total amount saved. Another term for the same type of account is the "Xmas Savings Club."

CLEARING HOUSE. An association of banks in a city created to facilitate the clearing of checks, drafts, notes, and other items among the members. It also formulates policies and rules for the mutual welfare of all members and in times of financial stress aids those members who might require help in the process of clearing checks, etc.

COIN COUNTING MACHINE. A machine used in banks to count accurately and swiftly large volumes of specie, or coins. The machine has a hopper into which are fed all denominations of coins. The machine is regulated to sort out coins from the smallest size (dime) to the largest (half dollar). The coins are automatically counted as they are sorted, one denomination at a time, and then packaged in coin wrappers.

COLLATERAL. Stocks, bonds, evidences of deposit, and other marketable properties which a borrower pledges as security for a loan.

COLLATERAL NOTE. A promissory note which specifically mentions the collateral deposited by the borrower as security for the repayment of the loan.

COLLECTION DEPARTMENT. The department which handles checks, drafts, coupons, and other items received from a depositor with instructions to credit his account after final payment has been received. In large cities the collection department is usually divided into four sections (i.e., city collection, country collection, coupon collection, and foreign collection).

COLLECTION ITEM. (As distinguished from a cash item). An item which is received for collection and credit to a depositor's account after final payment. Collection items are usually subject to special instructions regarding delivery of documents when attached, *protest* (see definition), etc., and in most banks are subject to a special fee for handling which is called a collection charge.

COLLECTION LETTER. The letter which accompanies items to be handled for collection and credit after payment. These letters usually contain instructions for protest, delivery of documents, wire advices, and the like.

CO-MAKER. A person who signs a note in addition to the borrower to give extra security to the loan.

COMMERCIAL ACCOUNT. In general, this term is associated with a checking account. However, in many banks the bookkeeping department is divided into two sections to afford greater control in handling different types of activity. One section handles the regular checking accounts of individuals, while the other section handles the checking accounts for all types of businesses.

COMMERCIAL LETTER OF CREDIT. Letters of credit issued to facilitate the purchase of goods. Many businesses use Commercial Credits to purchase merchandise and insure prompt shipment because the responsibility of the issuing bank is behind the credit. See also *"Letter of Credit."*

COMMERCIAL LOAN. See *"Loan"* for general definition. Commercial loans are principally loans made to businesses for the financing of inventory purchases and the movement of goods, as distinguished from personal loans or consumer credit loans. Commercial loans are short-term time loans, or acceptances (time drafts accepted).

CONSUMER CREDIT. Credit extended by a bank to a borrower for the specific purpose of financing the purchase of a household appliance, alteration or improvement, or piece of equipment (which may include an automobile or small aircraft). This credit is generally extended to individuals rather than to businesses. The largest field for this type of financing is in household appliances and home improvements, such as insulation work, furnaces, storm windows and doors, etc. The loan is made for a period of time, twelve, eighteen, or twenty-four months, and a liquidation agreement is based upon a definite repayment in equal monthly installments. The bank has a chattel mortgage, a lien, or a lease agreement as collateral on the commodity purchases, and may take possession of the property at any time that the liquidation agreement is not carried out by the borrower.

CONTINGENT LIABILITY. The term applied to the obligation of a guarantor or accommodation endorser of a *negotiable instrument* (see definition). The guarantor or endorser has no benefit from the negotiable instrument involved, but is required by law to make good the payment of the instrument if the maker defaults. The actual liability exists with the maker of the note (the borrower). The contingent liability exists for the duration of the instrument, and is passed to the guarantor or endorser as a primary liability only if the borrower dishonors the instrument upon presentation and request for payment.

CONTINUING GUARANTY. A form given to a bank by a person to guaranty repayment of a loan to another party. This guaranty promises payment by the guarantor in the event of default by the borrower, and is so worded that it may apply to a current loan, or to one made at a later date. The guaranty may or may not pledge collateral as security for the loan.

CORPORATE RESOLUTION. A document given to a bank by a corporation defining the authority vested in each of its officers who may sign and otherwise conduct the business of the corporation with the bank. Corporate resolutions usually are given with or without borrowing powers. These powers are granted by the board of directors of the firm.

CORRESPONDENT BANK. A bank which is the depository for another bank is known as its correspondent. The correspondent bank accepts all deposits in the form of cash letters, and collects items through transit for its bank depositor. The depository bank will render all banking services to its correspondent in the region in which it (the depository bank) is located.

COUNTER CHECK. A check which is not negotiable, and which is used by depositors to draw funds from their own checking account. The counter check is generally found in blank form in the bank's lobby, and is usually preprinted as to the payee, being printed with the wording "Pay to the Order of MYSELF ONLY." It is this wording which renders the counter check non-negotiable. The item is posted against the account of the depositor the same as any other check drawn by the depositor.

COUPON. Non-registered bonds are negotiable in that they may be transferred in title from one person to another. The evidence of interest payable on the bonded indebtedness is a portion of the bond itself. This portion of the bond is composed of a series of small sections, each dated serially for future payment dates. These small sections, when cut or "clipped" from the bond on the date specified, are called coupons, and are also negotiable "bearer" instruments. The coupon recites the terms of the payment and the legal entity which issued the bond, the date and place of payment, and the number of the bond from which the coupon was clipped.

CREDIT DEPARTMENT. A department in a bank where credit information is obtained, assembled, and retained for reference purposes. Credit applications for loans are presented to this department by a loan officer. The credit department gathers all available information on the customer, and prepares it for the confidential use of the loan officer. Based upon the findings of the credit department, which will make an analysis of the credit information, the loan officer is in a position to make a decision as to whether the customer is entitled to the credit requested, or whether the loan application should be rejected. The credit department also obtains information and answers credit inquiries for its bank correspondents, who may have a business transaction pending that will involve credit knowledge on a local business.

CURRENCY. The term given to paper money issued by a government through an act of law. This paper money circulates freely at par in all channels of trade, and is backed by law with either precious metal owned and controlled by the government which issues the currency, or by the promise of the government to redeem the paper money with legal precious metals of the government. (See also *"Legal Tender"* and *"National Bank note."*)

DEBENTURE. A term used to define indebtedness, usually in long term obligations, which is unsecured. A debenture is found in bonded indebtedness for which no security has been pledged other than the integrity of the issuer of the bond.

DEBIT. All assets and expense accounts normally have debit balances and all liability, capital, and income accounts normally have credit balances. A debit is any amount in dollars and cents that, when posted, will increase the balance of an asset (resources) or expense account, and will decrease the balance of a liability, capital, or an income account. Examples for the bank: checks drawn on the bank account of depositors are debits when posted, because they decrease a liability account balance; deposits are credits when posted because they increase a liability account balance. New loans are debits when posted because they increase an asset account balance; while paid-off loans are credits, since they decrease an asset account balance when posted.

DEED. An instrument in writing under seal, duly executed and delivered, containing a transfer, a bargain, or contract, usually in conveying the title to a real property from one party to another. There are two general types of deeds—the quit-claim and the warranty. Under a quit-claim deed, the seller conveys property to the purchaser, the title being only as good as the title held by the seller, who releases all claim, interest, or right to the property as far as his own title is concerned. Under a warranty deed, the seller also releases all claim, right, and title to the property, but also warrants the title to be perfect, and guarantees the purchaser of these facts. The warranty is recognized by law as the subject for future restitution of loss to the purchaser if any defect in the title is conveyed by the seller.

DEFERRED CREDIT. A credit that has been "delayed" in posting for a reason. A deferred credit may be a deposit which came into the bank after business hours, and is therefore entered on the books in the following day's business. Large banks with scattered branch operations may defer the posting of deposits until the following day because of delivery to the bookkeeping department. Deferred credits may also refer to income which has been received but not earned (from an accrual system standpoint). Examples: Funds left with a bank, the account to be credited on a specified future date. Unearned discount, where the discount is taken when the loan is made, and the earnings fully accrued when the loan is due and payable.

DEFERRED DEBIT. Debits when "delayed" in posting for reasons of business practice, or because of inability to handle these items in a normal business day. Checks may be deposited and the deposit credited to the account, but the checks held over for future processing. Abnormal deposits, such as payments for automobile licenses, driver's licenses, Christmas seal purchases, etc., that are processed only once a year cause abnormal peak loads in banks. During these periods, the extra load may be allocated to a section of the bank, where the load will be processed daily, and the unprocessed portion deferred until the following business day for processing.

DELAYED POSTING. A term to describe a method of posting items. Examples:

1. Partially delayed posting plan—the previous day's counter checks intersorted with the current day's inclearings and mail items and posted in one run. (The previous day's counter work is delayed.)
2. Fully delayed posting plan—the previous day's inclearings and mail and the previous day's counter work are intersorted and posted in one run on the current day—(all checks posted one day after coming into the bank's possession—fully delayed).

DEMAND DEPOSIT. These deposits are payable on demand at any time the depositor elects. The Federal Reserve Board and the various state laws define these deposits as being payable within 30 days after deposit. They are drawn against by check, and no notice of withdrawal is necessary. The great portion of demand deposits are known as commercial deposits, and are deposited in *commercial banks* (see definition). Because these deposits are payable on demand, member banks of the Federal Reserve system are required to maintain much higher reserve balances on them than on other types of deposits.

DEMAND LOANS. A loan that has no fixed maturity date, but which is payable upon demand of the bank making the loan. Interest accruing on a demand loan is earned before it is paid by the borrower, who is billed by the bank on a monthly or quarterly basis for the interest earned and due to the bank. Demand loans can be "called" by the bank at any time that the bank desires payment.

DEPOSIT. A deposit is an amount of "funds" consisting of cash (currency and specie), and/or checks, drafts, cash items, etc. that may be converted into cash upon collection. The deposit is given to a bank for the purpose of establishing and maintaining a credit balance with the bank. The bank is not a bailee, in that it does not guarantee replacing the exact items deposited when payment is demanded by the depositor. The depositor becomes a general creditor of the bank as evidenced by the depositor's account balance. Though the general conception is that all deposits are of this general nature, there are also specific deposits and special deposits left with a bank. When specific deposits are made, the bank becomes a bailee until it discharges the deposit as agreed. Special deposits are not necessarily funds because the broad view of special deposits would include property, such as stocks, bonds, silver, jewelry, etc., deposited for safekeeping. The bank is definitely the bailee in this instance, in that it must return the exact property that was deposited.

DEPOSIT CORRECTION SLIP. A form used to notify a depositor of an error made by the depositor. When the error is located, the bank makes out a deposit correction slip showing what the error was, and the corrected new balance of the deposit. The depositor can then correct his records accordingly.

DEPOSITOR. An individual person, a partnership, a business proprietorship, corporation, organization, or association is termed a depositor when funds have been placed in a bank in the name of that legal entity.

DEPOSIT SLIP. A posting medium used to credit the account of the depositor. This piece of paper is recognized in courts of law as an original entry, and is evidence of the itemized listing of all items deposited for credit to the depositor's account in the bank. It should be made out by the depositor, and presented with the deposit to the receiving teller.

DISCOUNT. The amount of money deducted from the face value of a note. The borrower receives the net amount after the discount has been deducted. The discount is computed at the rate of interest agreed upon. Technically this is called "banker's discount" for it includes "interest on interest." True discount offers the borrower a very small advantage over "banker's discount." The term may also be used as a noun, the banker referring to his portfolio of "discounts," meaning his discounted notes. The term discount also refers to discounts on securities. Securities are bought and sold either at a discount (at less than par value); they are purchased at par (at face value); or they are purchased at a premium (the buyer pays a price higher than the face or par value in order to acquire them). In foreign exchange, the term "discount" is used to describe the relationship of one currency to another. As an example: Canadian currency may be at a discount to United States currency.

DIVIDEND. A portion of the net profits which has been officially declared by the Board of Directors. A dividend is paid upon a per cent of the par value of the stock, or if the stock does not have a par value, then upon a certain amount for each share of stock held by each stockholder.

DIVIDEND CHECK. A negotiable instrument in the form of a check drawn on a depository bank of the corporation issuing the dividend. It is signed by the secretary of the corporation, and is generally countersigned by the registrar agent bank's official. It is dated for the day set for payment of dividends as passed by the Board of Directors. The payee is the stockholder of record in the registrar agent's office at the time of the dividend. The amount is the declaration as passed by the Board of Directors on a per-share basis.

ENDORSEMENT. When a party writes a legal signature (any signature recognized by law) upon the back of an instrument, this constitutes an endorsement. An endorsement is required on a negotiable instrument in order to transfer and pass title to another party, who becomes a "holder in due course." An endorsement, in the terms of the Negotiable Instruments Act, has a serious legal significance. The endorser, in signing the endorsement, guarantees that he is the lawful owner of the instrument; that he knows of no infirmity in the instrument; that he received it in good faith for value received; and that he is a holder in due course, and has the legal capacity to transfer title to another party in the normal course of business. A holder in due course has the legal right to look to any prior endorser of the instrument in case the instrument is dishonored by the maker.

ESCROW. A written agreement or instrument setting up the allocation of funds deposited by the giver or grantor to a third party, called the escrow agent, for the eventual benefit of the second party, called the grantee. The escrow agent holds the deposit until certain conditions have been met. The grantor cannot get the deposit back except if the grantee fails to comply with the terms of the contract, nor can the grantee receive the deposit until the conditions have been met. A common example of escrow today is the escrow fund carried in relation to mortgages. The property holder, or mortgagor, pays to the financial institution (either the mortgagee or agent for the mortgagee) who in this case is the escrow agent, certain funds for the payment of taxes, assessments, insurance, etc. These escrow funds are for the future benefit of the collector of taxes, etc. At tax collection time, the escrow agent pays the tax collector the funds held in escrow. The mortgagor is relieved of this problem, the tax collector has collected his taxes, and the financial institution has fulfilled its obligations as escrow agent.

EXPENSE ACCOUNT. An account carried in the general ledger where all operating expenses are recorded. As in any business, expenses are deducted from gross profits, or the total of all income accounts, to compute the net profit of the business for the period. Large banks have a very detailed expense ledger as a subsidiary to the general ledger. Large banks maintain an expense distribution and analysis section where expenses are distributed to departments and analyzed for control purposes. Expenses should not be confused with capital expenditures, where funds are invested in fixed assets. Expenses are the regular charges incurred in doing business. Salaries, payroll, stationery and supplies, heat, light, and power, rent paid on equipment, etc., are expense items.

FEDERAL SAVINGS AND LOAN ASSOCIATION. The title given to one of the associations established by the Home Owners Loan Act of 1933 and amended in the Home Owners Loan Act of 1934, approved on April 27, 1934. This Act permitted existing and newly formed mutual savings banks and building and loan associations to come under a Federal charter. Under the Federal charter, these institutions are governed and regulated by the Federal Home Loan Bank Board.

FIDUCIARY. An individual, corporation, or association, such as a bank or trust company, to whom certain property is given to hold in trust, according to the trust agreement under which this property is held. The property may be utilized, or invested for the benefit of the property owner to the best ability of the fiduciary. Administrators and executors of estates, trustees of organizations, are common examples of fiduciaries. Investments of trust funds, unless specified in the trust indenture, are usually restricted by law.

FISCAL AGENT. A bank or trust company acting under a corporate trust agreement with a corporation. The bank or trust company may be appointed in the capacity of general treasurer of the corporation, or may be appointed to perform special functions as fiscal agent. The principal duties of a fiscal agent include the disbursement of funds for payment of dividends, redemption of bonds and coupons at maturity, the payment of rents, etc.

FOREIGN CURRENCY. The currency of any foreign country which is the authorized media of circulation and the basis for record keeping in that country. Foreign currency is traded in by banks either by the actual handling of currency or checks, or by the establishment of balances in foreign currency with banks in those countries.

FOREIGN EXCHANGE. Generally this term applies to the trading in or exchange of foreign currencies in relation to United States funds. Rates of exchange are established and quoted for various foreign currencies based on the demand, supply, and stability of the currency. Foreign exchange is the means by which values are established for foreign merchandise, thus permitting the exchange of commodities between countries.

GOVERNMENT CHECK. Government checks are of two types: punched cardboard, and paper. They are drawn on the Treasurer of the United States, and are collected through the Federal Reserve banks. The Federal Reserve banks usually prefer the two types to be listed separately. The purpose for the drawing of the check and the appropriation number is shown on the face of the check.

GOVERNMENT DEPOSITS. Funds of the United States government and its agencies (such as the Collector of Internal Revenue, the Post Office Department, the Veterans' administration, and other departments) which are required to be placed in depositories designated by the Secretary of the Treasury. The depositories are required to deposit securities as collateral for the safekeeping of the government deposits they hold. The securities that are eligible as collateral are published periodically by the Treasurer of the United States. Government obligations, state and municipal bonds, and certain approved rail, public utility, and industrial bonds are the usual listed securities chosen as required collateral for depositories holding government deposits.

GUARANTY. A contract, agreement, or undertaking involving three parties. The first party (the guarantor) agrees to see that the performance of a second party (the guarantee) is fulfilled according to the terms of the contract.

HEAD TELLER. A teller in a bank who sometimes has the title of assistant cashier. The head teller is usually custodian of the reserve cash in the bank's vault. It is his responsibility to see that an "economical" quantity of cash is on hand at all times to meet the normal demands of the bank's customers. It is his responsibility to assemble the cash figures for all tellers at the end of the business day, and prepare the cash report for the general ledger. He is also responsible for the work of all tellers in the bank, and he must re-count cash for a teller who comes up with a difference at the end of the day. He must fully report any overages or shortages that may appear, and assist where possible to locate the difference.

HYPOTHECATED ACCOUNT. An account which is pledged or assigned as collateral for a loan. Savings accounts, trust accounts, etc., usually come in this category.

HYPOTHECATION. An agreement or contract which permits a bank or a creditor to utilize the collateral pledged to secure a loan, in case the loan is dishonored at maturity. When a borrower arranges for a secured loan, and pledges collateral as the security for the loan, he must sign an hypothecation agreement which permits the bank to take possession of the securities in order to realize payment of the loan in case of default by the borrower.

INACTIVE ACCOUNT. An account which has little or no activity. The balance may be stationary, neither deposits nor withdrawals having been posted to the account for a period of time.

INDEPENDENT BANK. An independent bank is one which operates in one locality. The directors and officers are generally local men of the community. If the local bank operates branches, these will be located in the same city as the central office, except in states where statewide branches are permitted, in which case the independent bank may have statewide branch offices. Independent banks are to be distinguished from chain or group banks.

INDUSTRIAL BANK. A financial institution that derives its funds through a form of savings known as "investment shares," and invests these funds by specializing in the financing of businesses through the assignment of pledged accounts receivable.

INSTALLMENT LOAN. Another name for *"Personal Loan"* or *"Consumer Credit Loan"* (see definitions).

INSUFFICIENT FUNDS. A term used to express the fact that a depositor's balance is inadequate for the bank to pay a check drawn against this available balance. Most banks in the country today exact a service charge on any check that is presented to them for payment, and for which the balance is not sufficient to pay the check.

INSURED BANK. A bank which is a member of the *Federal Deposit Insurance Corporation* (see definition).

INTANGIBLE ASSET. An asset which has no substance or physical body; it is incorporeal. The most widely known types of intangible assets are known as "Goodwill."

INTEREST. The price paid for the borrowed use of a commodity, especially money, is called interest. It has also been termed the "rental payment" for money borrowed. Interest is computed on a per centum rate of the principal borrowed for a given period of time. There are two kinds of interest—simple and compound. Simple interest is the price paid for money for a period of time based upon the principal. Compound interest is the price paid by the borrower based upon the principal plus the accrued interest over a period of time. Banker's interest is generally computed on the amount of interest earned and accrued daily: i.e., 1/360th of the interest at the agreed upon per centum rate for the actual number of days a loan is made.

INTEREST EARNED BUT NOT COLLECTED. Another name for "Interest Receivable." This represents interest on loans which has not been collected in advance, but is due and payable at specified times. Interest on demand loans usually come into this class, collection being made each month, each quarter, or longer period of time, based upon bills being sent to the borrower for interest due. This is an asset (resources) account in the general ledger.

INVESTMENT BANKING. A term used to describe the financing of the capital requirements of an enterprise rather than the current "working capital" requirements of a business. Investment bankers buy and sell securities, such as stocks, bonds, and mortgages. They act as the "middle men" between the corporation who wishes funds for new buildings, new equipment, plant expansion, etc., and the investor, who wishes to invest his savings. Investment bankers may promote a new industry; they may handle the finances of a corporation for expansion purposes; and they may act as brokers with other investment bankers in the flotation of stocks and bonds.

INVESTMENT PORTFOLIO. The list of securities owned by a bank, an individual, or a business enterprise. In banks the investment portfolio is a title given to the complete list of securities held by the bank for investment purposes. In the general ledger the investment portfolio is in reality a control account entitled "Investments" supported by subsidiary accounts, each of which contains the title and complete description of each investment held by the bank.

JOINT ACCOUNT. An account owned by two or more people, subject to check or withdrawal by all signatures of all joint owners.

JOINT AND SEVERAL ACCOUNT WITH RIGHT OF SURVIVORSHIP. Where two or more persons desire to deposit in a jointly owned account, and where the account is drawn against either by check or withdrawal, the signature of any ONE of the owners may be honored. Agreements are usually signed by all parties relieving the bank of all liability, and permitting payment to any of the survivors. This type of account is usually distinguished by the wording "either/or" or "and/or" shown in the agreement or signature cards used in establishing the account.

JOINTLY AND SEVERALLY. This term is frequently used in loan transactions where several persons sign a note.

KITE. A term used in banking circles to describe the malpractice of individuals in taking advantage of the time element of check collections by the bank. The individual either has a cohort in a distant city, or another account in another city himself. He deposits a check drawn on a bank in a distant city, and then draws from this uncollected balance while the check is in the process of collection. The same individual also sends a check drawn upon this bank, and deposits it in the other bank, where he also draws against uncollected funds by issuing checks against this out-of-town bank. In this manner he uses both bank accounts to his advantage to draw against "non-existent" true balances.

LEASE. A contract usually made in writing whereby one party known as the lessor grants to another party known as the lessee the rights of use, tenancy, or occupancy to property owned by the lessor. This property may be land, buildings, equipment, or other chattel property. The lease agreement describes the rights of the owner (lessor) and the rentor (lessee), and recites the terms of periodic payment and the tenure of the lease. The property leased reverts to the owner at the expiration of the lease agreement.

LEDGER. A record of final entry in bookkeeping. An account is established for every type of transaction, and a ledger account is posted with every transaction affecting this particular account. The term ledger also applies to a group of accounts, all of a similar nature, such as an accounts receivable ledger, an accounts payable ledger, etc. When accounts of a similar nature become too large, they are taken from the general ledger and placed in a subsidiary ledger, with a control ledger card in the general ledger. The control ledger card contains the balance of the entire subsidiary ledger that it represents. Subsidiary ledgers are established for control, and to facilitate more than one person posting to the ledger whenever the volume of a ledger control becomes more than one person can handle.

LEGAL ENTITY. Any individual, proprietorship, partnership, corporation, organization, or association which has, in the eyes of the law, the capacity to make a contract or an agreement, and the ability to assume an obligation and to discharge an indebtedness. A legal entity is a responsible being in the eyes of the law, and can be sued for damages if the performance of a contract is not met according to the contract or the agreement.

LETTER OF CREDIT. An instrument or document issued by a bank on another bank or banks, foreign or domestic. The letter of credit gives the buyer (probably unknown to the seller) the prestige and the financial backing of the bank which issues the letter of credit in his behalf. The acceptance by the bank of drafts drawn under the letter of credit satisfies the seller and his bank in the handling of the transaction. The buyer and the accepting bank also have an agreement as to payment for the drafts as they are presented.

LIABILITIES. In banking parlance, the liabilities are the funds a bank owes. By far the largest item on the liability side of a bank's financial statement is the deposits. The current indebtedness of a bank to those other than depositors is usually small in total, and represents current obligations that are to be paid on a certain future date, such as Federal and real estate taxes. The capital structure (capital stock, surplus, and undivided profits) are listed in bank statements as liabilities, but these accounts are the net worth of the bank, and represent the liability owing the stockholders of the bank.

LOAN. A business transaction between two *"legal entities"* (see definition) whereby one party, known as the lender, agrees to "rent" funds to the second party, known as the borrower. The funds may be "rented" with or without a fee. This fee is called interest or discount in banking circles. Banks are the principal lenders of funds for commercial purposes. Loans may be demand or time loans, depending upon the agreement as to maturity. They may also be secured or unsecured within the above categories. When secured, the loans are supported by hypothecated securities acceptable to the lender, and these securities may be used by the lender to recover repayment in case of dishonor by the borrower. Loans may also be short-term loans or long-term loans. Short-term loans are evidenced by a promissory note, a trade acceptance, or other type of negotiable instrument. Long-term loans are evidenced by bonds, mortgages, debentures, chattel mortgages, automobile liens, bailment lease agreements, or other certificates of indebtedness. The documents used in long-term paper are legal evidences of indebtedness, and will stipulate the agreement made, the reason for the indebtedness, the manner of payment, and the rights of the lender in case of default by the borrower. Long-term loans are generally outside the provisions of bank charters, and therefore handled by other lending agencies.

LOAN APPLICATION. A form used by banks to record the formal request for a loan by a borrower. The form is especially designed by each bank to incorporate the necessary information that the bank desires having on record. The loan application may be a simple form or a more complex form containing information relative to the assets, liabilities, income, insurance, and contingent obligations of the borrower, as well as the purpose for which the loan is intended.

LOAN DEPARTMENT. The department of the bank where all the paper work as well as the actual loan transactions are handled. All notes and other negotiable instruments are filed in this department. All collateral securities are also filed in this department, which is bailee or custodian of these instruments and securities. The "Loans Made Register," the record of original entry for all loans, is created here. The note notice and maturity tickler are filed here for ready reference. The liability ledger containing the complete loan record of each borrower is made and kept in this department. This department is the principal source of revenue for the operations of the bank.

LOAN OFFICER. An officer of the bank who is designated with the responsibility of interviewing customers who may become borrowers. Certain officers of a bank are designated upon their appointment by the board of directors of the bank to have the power to grant loans to customers within certain specified amounts. Large loans are approved by a Loan Committee consisting of appointed officers and directors of the bank.

LOAN TELLER. An employee in the loan department who handles loan transactions. This teller is the custodian of cash in the loan teller's cash till and handles all direct transactions involving loans for the loan officer, upon the officer's recommendations and approval. The teller usually computes the interest based upon the rate set by the loan officer, accepts collateral over the counter, and performs all duties of a regular teller, but dealing specifically with the functions of the loan department.

MAIL DEPOSIT. A deposit received by the bank from a depositor through the mail rather than over the counter. Many banks are using this means to reduce lobby activity and to encourage the depositor who is unable to visit the bank frequently. A form is used, whereby the depositor makes out the deposit slip and also an advice of receipt. The bank, upon receiving the deposit, stamps it as being received, and returns the receipted portion for the depositor's record.

MONEY ORDERS. Money orders are instruments commonly purchased for a fee by people who do not maintain checking accounts, but who wish to send money to distant points. The name of the purchaser as well as the payee is shown on the face of the money order. *Postal money orders* are drawn on the post office in the city where the payee is located, while *bank money orders* are drawn either on the issuing bank or on its correspondent.

MORTGAGE. A mortgage is an instrument of conveyance (generally of real estate) from a borrower, called the mortgagor, to the lender, called the mortgagee. The mortgage is only a "conditional" conveyance, in that the property remains with the use and occupancy of the mortgagor as long as the mortgagor lives up to the conditions of the mortgage. The major conditions are the continual payment of interest and principal reduction as set forth in the wording of the mortgage. When the money is loaned by the mortgagee to the mortgagor, the mortgage is signed by the borrower or mortgagor, and given to the mortgagee who has the right to foreclose the mortgage, or exercise his right to take over the property, in case the mortgagor fails to meet his obligations under the terms of the mortgage. The mortgage should always be filed in the records of the county seat where the real estate property is located. See also *"Chattel Mortgage"* for "movable property."

MORTGAGE BANKER. A banker who specializes in mortgage financing; an operator of a mortgage financing company. Mortgage financing companies are mortgagees themselves, as well as being mortgage agents for other large mortgagees. Serving as mortgage agents, these mortgage bankers collect payments, maintain complete mortgage records, and make remittances to the mortgagees for a set fee or service charge. They also disburse funds for taxes, insurance, etc., as *escrow agents* (see definition).

MORTGAGE DEPARTMENT. A department in banks, building and loan, savings and loan associations, and trust companies, where mortgage counselors, mortgage loan officers, and mortgage recording personnel handle all phases of mortgage work for mortgagors. This department may also act as *escrow agents* (see definition) for mortgagors, in that they collect in the monthly payment from the mortgagor a portion of the real estate taxes, assessments on real estate, and hazard insurance. They hold these in escrow funds until payable, and then disburse the funds for the benefit of the mortgagor, and also the mortgagee, to prevent the development of liens against the property. In some states, they administer escrow funds in connection with closing mortgages, whereas in other states mortgage closings are required to be handled by attorneys-at-law.

MORTGAGE LOAN. A loan made by a lender, called the mortgagee, to a borrower, called the mortgager, for the financing of a parcel of real estate. The loan is evidenced by a mortgage. The mortgage sets forth the conditions of the loan, and the manner of repayment or liquidation of the loan.

MUTUAL SAVINGS BANK. A banking organization without capital stock, operating under law for the mutual benefit of the depositors. A mutual savings bank is operated by a board of trustees. The depositor is encouraged to practice thrift, and the savings of these small depositors are invested in very high grade securities and some first class mortgages. Dividends from these investments are mutually distributed after expenses of the association and reserves for a guaranty fund for depositors have been deducted. The principal idea of a mutual savings bank is to perform a social service for small depositors who cannot risk their savings and who cannot invest their savings through their own knowledge without proper counsel.

NATIONAL BANK. An association organized with the consent and approval of the *Comptroller of the Currency*, chartered by the United States government to carry on the business of banking. All national banks must contain the word "National" in their title.

NEGOTIABLE INSTRUMENT. The Uniform Negotiable Instruments Act states: An instrument, to be "negotiable," must conform to the following requirements:

1. It must be in writing and signed by the maker or drawer;
2. It must contain an unconditional promise to order to pay a sum certain in money;
3. It must be payable on demand, or at a fixed or determinable future time;
4. It must be payable to order or to bearer;
5. Where the instrument is addressed to a drawee, he must be named or otherwise indicated therein with reasonable certainty.

If instruments, such as checks, drafts, bills of exchange, acceptances, promissory notes, etc., meet the above requirements, they may be transferred by delivery to another person in good faith for a consideration. The new holder, called the transferee, is called a "holder in due course." (See also, *"Holder in Due Course."*)

NIGHT DEPOSITORY. A small vault located on the inside of a bank, but accessible to the street-side of the bank building.

NOTE. An instrument, such as a promissory note, which is the recognized legal evidence of a debt. It is an instrument signed by the maker, called the borrower, promising to pay a sum certain in money on a specified date at a certain place of business, to a certain business, individual, or bank, called the lender. It should meet all requirements of the Uniform Negotiable Instruments Act. (See also *"Negotiable Instrument"* and *"Loan."*)

NOTE NOTICE. A form which is made and used by the loan department of a bank. The note notice contains all information as to the amount, due date, maker's name and address, securities pledged, if any, etc. It is mailed to the borrower several days before maturity of the note, as a reminder of the due date of the note. If the bank is posting the *liability ledger* (see definition) by machine, the "Loans Made Register," customers liability ledger card, NOTE NOTICE, and maturity tickler are all created in one posting operation.

NOTE TELLER Another title for *"Loan Teller."* (See definition.)

OPERATING EXPENSE. Any expense incurred by a bank in the normal operation of the business. This is to be distinguished from capital expenditures, which are disbursements that are capitalized and depreciated over a period of years. Many large banks have as many as fifty major expense classifications, and maintain subsidiary ledgers for these major classifications. Monthly departmental expense reports are made out and forwarded to department heads, who can analyze their expenditures and budget requirements. Smaller banks do not require such elaborate bookkeeping, the expense accounts being carried as a part of the general ledger.

OPERATING INCOME. Income to the bank produced by its operating assets. The bank's source of income lies in the judicious use of the assets (resources) it owns. The bank must rely upon its directors and officers to exercise this good judgment to produce sufficient income to pay all expenses.

OPERATING LOSSES. Losses incurred in the normal operation of the bank. Such losses may be incurred when a loan becomes uncollectible—when a borrower becomes insolvent and cannot pay his loan. Such a loan is charged off against the undivided profits account.

OPERATING OFFICER. In large banks an operating officer is a department head usually holding a title such as assistant vice-president, assistant comptroller, or assistant cashier. He is in complete charge of the operations of his department. This distinction is made from the other officials, such as the vice-presidents, who are specialists in their fields. The cashier of the bank can be construed as being the senior operating officer in charge of the overall operations of the bank in its routine work. The vice-presidents are specialists in the field of loans, credits, investments, and trusts. In the smaller banks, it is not uncommon for vice-presidents to be in charge of certain operations as well as being specialists in their field. Any decision regarding the operation of a department is usually left to the operating officer in charge of the department. His recommendations regarding personnel requirements, equipment purchases, type and quantity of supplies used, etc., carry great weight with higher officials.

OVERDRAFT. When a depositor draws a check for more than the balance on deposit in his account with a bank, he is said to be "overdrawn." The bank can either return the check to the bank from which it came, or to the depositor who presented it for payment, marked "Insufficient Funds;" or the bank may elect to render the customer a service and pay the check. When the bank pays the check, it creates an overdraft in the depositor's account. The account ceases to become a deposit liability, and becomes an asset, since it is in effect a loan to the depositor. This type of "loan," however, does not find favor with bank officials or bank examiners, because it is an unauthorized and illegal "loan" without a note as evidence. Overdrafts are infrequent and a depositor's credit is impaired when checks are presented that would, if approved by the banker, create overdrafts in his account. Some banks exact heavy service charges for checks returned for insufficient funds. Interest is often charged on overdrawn accounts.

PARTICIPATION LOAN. Limitations have been set up by banking laws whereby banks are not permitted to lend more than a fixed per cent of their capital and surplus to any one borrower. (In most states, this fixed per cent is approximately 10%.) This limitation causes banks to invite other banks to participate in making a large loan. If the financial background and credit position of the borrower warrants the large loan, several banks may each lend a portion of the amount to the borrower. The participating banks work together in handling the loan, and work out a joint agreement as to the liquidation program of the loan, since some of the banks may wish to be paid off ahead of other banks.

PARTNERSHIP CERTIFICATE. A certificate filed with a bank showing the interest of each partner in a business enterprise operating as a partnership. This certificate also shows the limited partners (partners who specify a maximum amount for which they may be held responsible in settlement of obligations incurred by the partnership), and also "silent partners" (partners who have invested funds in the partnership, but who, for certain reasons, do not wish to be publicly known as partners).

PASS BOOK. A book record prepared by a bank for a depositor, listing the deposits as to date of deposit and amount, with an initial or identifying symbol as to who received the deposit. In the case of savings accounts, the pass book lists deposits, withdrawals, interest paid by the bank, the date of all transactions, the new balance, and the initial or identifying symbol of the teller handling each transaction. The pass book shows the name or names of the depositing customer, and on savings accounts, the name and number of the depositor's account.

PAST-DUE ITEM. A note or acceptance which has reached maturity without payment being offered by the maker (in case of a note); or the drawee—the buyer of goods (in case of an acceptance). Past-due items are usually protested for non-payment at the discretion of the banker.

PAYEE. The legal entity who is named in an instrument as the recipient of the amount shown on the instrument. In a check, the maker of the check orders the drawee bank to pay an amount to the payee whose name is written after the words "Pay to the Order of" on the face of a check. In a draft, the drawer of the draft orders the drawee to pay an amount to the payee whose name appears after the words "Pay to the Order of" or "At Sight, Pay to the Order of," etc. The payee is the party who will benefit by the payment of an instrument.

PERSONAL LOAN. A type of loan generally obtained by an individual borrower in small amounts, usually under $1,000. The purpose of the personal loan is often for the consolidation of debts, the payment of taxes or insurance, or a large hospital bill. It is not usually secured by collateral—the integrity of the borrower and spouse being sufficient. In some cases a guarantor may be required. The loan is made upon the agreement by the borrower to repay it in equal monthly payments, the tenure of the loan usually running between six and twenty-four months. The interest is computed and handled in either of two ways:

1. Interest may be added to the principal or face of the note and the total divided by the number of monthly payments. The ledger posting used with this method will usually be a descending balance showing the net amount actually owed after each payment.
2. The other plan is posted as an ascending balance of an hypothecated account known as a "deposit ledger account." In this plan the interest may be added to the face of the note, but more frequently is deducted as a discount. The regular monthly payment is posted as a "deposit," and when the total deposit reaches the total of the note, the account is closed as being fully liquidated.

PLEDGED ASSETS. Securities owned by a bank, generally United States government bonds and obligations, specified by law, which must be pledged as collateral security for funds deposited by the United States government, or state or municipal governments.

POSTDATED CHECK. A check which is dated for a future date. Such checks cannot be paid by a bank upon presentation for payment, and must be returned as a postdated check. If good, the check will be paid if presented on or after the date shown on it.

POWER OF ATTORNEY. A legal document in writing whereby one person grants to another person the legal rights of utilization, tenancy, transfer, or disposal of assets owned by the first person as though he himself were performing these rights. A power of attorney may be limited as to the power of attorney, or may give full power over all assets owned.

PROMISSORY NOTE. A negotiable instrument which is evidence of a debt contracted by borrower from a creditor known as a lender of funds. If the instrument does not have all the qualities of a negotiable instrument, it cannot legally be transferred from one person to another. (See also *"Negotiable Instrument."*)

REBATE. A portion of unearned interest which may be given back to a borrower if his loan is paid off prior to the maturity date.

RESERVE. The accounting definition for "Reserve" generally means a portion of the profits which are allocated to various reserve accounts to protect any depreciation in asset values. The reserves are taken from profits before any declaration of dividends by the board of directors. In case of a necessary depreciation in an asset account, the reserve is available to absorb this depreciation. Various types of reserve accounts are:

Reserve for depreciation—an "equalizing valuation account" set up to offset an asset account in order to reduce it to its market value as its usable life diminishes.

Reserve for bad debts—a reserve set up to take care of possible bad debts developing in loans, "bad" checks cashed, etc.
Reserve for contingencies—a reserve set up to take care of an unexpected loss that could develop, such as an unexpected lawsuit.

RESOURCES. The bank's title for "Assets Owned." The resources of a bank are offset by the liabilities and capital accounts as listed on the *Daily Statement of Condition.* The major resources of a bank are: Cash on hand and due from banks; investments held; loans and discounts; and buildings, furniture, fixtures, and equipment.

RETURN ITEM. A negotiable instrument, principally a check, which has been sent to another bank for collection and payment, and returned unpaid for one reason or another to the sending bank. A returned item will have a ticket attached to it showing the reason for its return. Return items are sent back through the same channels from which they came. This is done by the reading of bank endorsements on the back of the item.

REVOLVING LETTER OF CREDIT. A letter of credit issued for a specific amount which renews itself for the same amount over a given period. Usually the unused renewable portion of the credit is cumulative, so long as drafts are drawn before the expiration of the credit.

SAFE DEPOSIT BOX. A metal container kept under lock and key in a section of a bank's vault for customer use. The boxes are kept in small compartments, each with a separate lock. These boxes are rented with the compartment to depositors and customers for an annual rental. Each customer has an individual key to the safe deposit box that he rents. The bank also has a separate key to each box. The box cannot be opened unless both keys are used, the customer's key opening one set of tumblers, and the bank's key opening another set to release the lock.

SAFE DEPOSIT VAULT. A section of the bank's vault set aside for the use of customers who may rent space in the vault for the safekeeping of valuable securities, papers, and small objects of value. (See also *"Safe Deposit Box."*)

SAFEKEEPING. A service rendered by banks, especially banks in large metropolitan areas, where securities and valuables of all types and description are protected in the vaults of the bank for the customer for a service fee. These valuables may include securities, precious gems, valuable paintings, collection pieces of great value, silver and gold services, etc.

SAVINGS ACCOUNT. An account which is deposited in a bank usually in small amounts periodically over a long period of time and not subject to check. Savings accounts are also known as "Time Deposits." They are usually interest bearing, and are subject only to withdrawal (NOT BY CHECK). The depositor is generally required to present his passbook upon making either a deposit or a withdrawal. Banks use the savings account plan to encourage the methodical habit of thrift in customers.

SAVINGS BANK. A banking association whose purpose is to promote thrift and savings habits within a community. This organization may be either a stock organization (a bank with a capital stock structure), or a *mutual savings bank* (see definition). It usually has little or no commercial functions, but specializes in savings accounts, with an investment of these savings in long-term bonds and investments for the benefit of all the depositors.

SCHOOL SAVINGS. A plan designed to promote the lesson of thrift in children in schools. A bank representative will call at the school one day a week, and assist teachers in accepting deposits in any small amount for the account of the pupil.

SECRETARY. An officer of a trust company whose signature is necessary on all official documents. In large trust companies where a secretary's duties are too numerous, the board of directors may appoint assistant secretaries to perform specific duties in connection with his official functions.

SECURED LOAN. A loan which is secured by marketable securities or other marketable valuables. (See also *"Hypothecation."*) Secured loans may be either time or demand loans.

SERVICE CHARGE. A fee which is charged by a bank against a depositor for services rendered in the bookkeeping of the depositor's account. This may be a "flat" monthly fee, regardless of activity, or it may be a "measured analysis" in which the service charge is levied against the activity of the account. Under the last plan, the depositor is permitted a credit based upon the average minimum balance maintained. If his activity is small, he may not be charged for the maintenance of the account. If, however, he makes several deposits, and draws many checks against the account, the service charge on the basis of a few cents per item may become much larger than the amount credited, and he may therefore be charged for this activity. Other types of service charges are made on the basis of a "flat" rate per check, or per checks and items deposited.

SIGNATURE CARD. A card signed by each depositor and customer of the bank. The signature card is technically a contract between the bank and its customer, in that it recites the obligations of both in their relationship with each other. The principal use of the signature card is that of identification of the depositor. Signature cards are made out in at least two sets, one for the signature file department, where all signatures are kept for ready reference, and the other for the file at the teller's window where the depositor will most frequently transact his business.

SIGNATURE FILE DEPARTMENT. This department is the custodian for all *signature cards* (see definition). The employees of this department issue daily reports on all accounts opened and all accounts closed. As a part of the public relations and "new business" work, the signature file department may write "thank you" letters to new depositors. This department also maintains records of the activity of customers and it can report to officers of the bank the departments in which the customer is transacting business.

SPECIAL INTEREST ACCOUNT. A term used by commercial banks to describe a savings account. Some states do not permit a commercial bank to accept "savings" accounts. They may, however, accept deposits on which interest is paid under the same conditions as a savings bank.

STALE CHECK. A check which was written and dated more than 90 days prior to presentation for payment. Such checks are marked "stale" and are returned unpaid to the bank from which they were received. This is done principally for the protection of the depositor, who will be informed of the return, and may elect to write out a new check to replace the "stale check."

STALE DATE. As in *"stale check"* (see definition), an item becomes "stale" if the date on the item is more than 90 days old. A holder in due course is supposed to present an instrument for payment "within a reasonable time" after maturity. Through various court decisions, each state has its own interpretation of the term "reasonable time." This may be more or less than 90 days.

STATE BANK. A bank which is organized according to the laws of a state, and is chartered by the state in which it is located to operate as a banking business. The various states have different laws under which banks operate. The state bank is under control of a State Banking Department. It is subject to examination by state authorities, and is governed in every respect by state laws.

STATEMENT OF CONDITION. A record issued daily from the general ledger department to officers of the bank. This record is also termed the "Daily Statement of Condition," and is in reality a trial balance of all accounts in the general ledger. The statement is of vital importance to the bank executive, for it helps him to follow the daily trends of his bank's financial status. He can control his lawful reserve requirements, and watch closely the relationship of his working assets to his deposit liability. The statement lists all resources (assets), all liabilities, the capital structure, and expenses and income accounts as carried in the general ledger. Periodically, either through Federal or state "call," the bank must forward its statement of condition to authorized banking officials of the government, either Federal or state as the case may be. Banks will usually have a "condensed" statement of condition printed at certain times in the year, making it available in the bank's lobby. They also will publish their statements in local newspapers, banking magazines, and trade papers, and folders for distribution to the public.

STOCK. The capital stock of a bank is determined by established banking laws, such as the Bank Act of 1933 and the Bank Act of 1935, and various state banking laws. All bank capital stock must be issued with some stated par value although the par value is not fixed. See "National Bank" for regulations on capital stock in national banks. Immediately after the banking holiday in 1933, the

Reconstruction Finance Corporation was authorized by the government to purchase preferred stock in banks thereby providing additional capital to banks in need of such aid. Many banks that took advantage of this have since retired this preferred stock, but some still have such preferred stock in their capital structure.

STOCK CERTIFICATE. An evidence of ownership in the form of a certificate. A stock certificate shows the number of shares owned in the name of the owner. It shows the corporation issuing the capital stock and states whether or not the stock is a par value or a non-par value stock. It names the par value, if the stock issued has such value. It cites the rights of the stockholder, such as voting or non-voting rights. In the case of preferred stock, it stipulates the dividend rate which is paid on the preferred stock, and tells whether the preferred stockholder has voting rights, and how many dividends can be passed before the stockholder exercises voting rights.

STOCK POWER. A power of attorney permitting a person other than the owner of the stock to transfer legally the title of ownership to a third party. Stock powers are usually given when stock is pledged as collateral to loans.

STOCK TRANSFER. The act of recording the change in ownership of stock on the records of a corporation's stock transfer book. This includes the maintenance of records for a corporation of the complete list of stockholders', the certificate identification evidencing the ownership of each stockholder, and the total number of shares owned by each stockholder. The stock transfer agent must maintain a record of all transfers of title to stock from one stockholder to another. It is the responsibility of the stock transfer agent to furnish a complete list of the stockholders and the number of shares held by each, whenever a dividend is declared. In the declaration of dividends, the board of directors stipulates the date of record in which stockholders shall participate. Transfers of stock after this date of record do not carry the right of dividend to the new owner except by agreement with the stockholder who gave up the title through transfer.

STOP PAYMENT. If a depositor issues a check and for some reason wishes to rescind the payment, he has the right to request the bank to stop payment of this item. The depositor must make his request either in writing or by a personal call. A stop payment notice is prepared and signed by the depositor giving a complete description of the item to be stopped. This includes the number of the check, the date of issue, the payee and amount, and the reason for stopping payment. If this check is presented for payment, it is the responsibility of the bank to refuse payment and to return it to the holder. The holder must then seek his repayment from the maker who stopped payment. The most common and valid use of a stop payment is where a check has been lost en route to the payee. The maker will stop payment on the original check and issue a duplicate in settlement of his debt to the payee. A disagreement over a purchase may cause the maker of a check to stop payment to a payee. The bank should refuse payment of a check through the authorized stop payment order, and let the parties involve settle their own disagreement. Many banks exact service fees for each month a stop payment is in effect. Other banks try to exercise due care in the matter of stop payments by carrying the stop payment jacket on the account for 90 days, after which the stop payment is placed in another ledger, where it is isolated and where better control can be maintained over it. If the item is then presented, its date will show it to be a *"stale check"* (see definition).

SUBORDINATION AGREEMENT. Where more than one *legal entity* (see definition) has an interest or claim upon the assets of a prospective borrower, a bank may require that the other interested parties sign subordination agreements before a loan will be granted. The subordination agreement is an agreement in which another interested party grants the bank a priority claim or preference to the assets of the borrower ahead of any claim that he may have.

SYNDICATE. A group of bankers who, by agreement among themselves, have joined together for the purpose of distributing a particular lot of securities.

TELLER. An employee of a bank who is assigned the duty of waiting on depositors and customers of the bank. The teller's principal responsibility is to handle cash for the depositor and the bank and to serve the depositor or the customer as far as his duties will permit. The teller is the "personal" contact between the customer and the bank. (See also *Head Teller, Loan Teller, Paying Teller,* and *Receiving Teller.*)

TIME DEPOSIT. An account carried with a bank by a depositor who is generally a small, steady saver of money. The time deposit is commonly termed a "savings account deposit." This deposit is usually interest-bearing. It is not subject to check, and funds may be withdrawn only by presentation of a pass book owned by the depositor. The depositor may either present his pass book personally and request withdrawal, or he may send the pass book with a written order requesting withdrawal. Banks may require the depositor to file a formal "notice of Withdrawal" for a certain period of time prior to receiving the funds.

TRANSPOSITION.. A common error made wherever figures are used. The error is caused by transposing the digits of an amount when copying the figure or entering it in a machine. Example: a check for $459.25, listed as $495.25, causes a transposition error of $36.00.

TRAVEL DEPARTMENT. A department in a bank established to render service to the bank's customers in any matter relative to travel or foreign transactions. In the larger coastal banks, all foreign transactions are handled by the Foreign Department of the bank. In interior banks, the Travel Department deals directly with their coastal bank correspondents in handling foreign transactions. The

Travel Department will arrange accommodations for domestic or foreign travel, plan vacation trips, handle foreign transactions, etc., for its customers.

TRAVELERS CHECKS. A form of check especially designed for travelers or persons on vacation trips. Many of the large banks issue and sell their own travelers checks to customers planning such trips. The checks are preprinted in certain denominations, such as $10, $20, $50, and $100. The customer must sign his name on the face of each check in a designated place in the presence of an employee of the issuing bank. When the check is cashed at a distant point, the purchaser must again sign the check on its face. The bank, hotel, or other party cashing the check thereby has ready comparison of signatures for proper identification. The use of these checks protects purchasers from loss which might result from carrying large amounts of currency with them while traveling. The checks are readily accepted by banks throughout the United States and Canada.

TRAVELER'S LETTER OF CREDIT. A letter of credit issued by a bank to a customer preparing for an extended trip. The customer pays for the letter of credit and the bank issues the letter for a specified period of time in the amount purchased. The bank furnishes a list of correspondent banks where drafts drawn against the letter of credit will be honored. The bank also identifies the customer by exhibiting a specimen signature of the purchaser on the folder enclosing the list of correspondent banks. The purchaser may go to any bank listed, draw a draft against the letter of credit, and receive payment. Each bank that honors a draft endorses on the letter of credit; the date a payment was honored, the name of the honoring bank, and the amount drawn against the letter of credit.

TRUST BUSINESS. A trust company, or a trust department of a bank, which settles estates, administers trusts, and performs agency functions for individuals, corporations, governments, associations, public or educational or related institutions, is said to be engaged in the "Trust Business."

TRUST COMPANY. An institution, usually state-supervised, which engages in the trust business.

TRUSTEE. The person charged with the proper administration of property or funds in accordance with the wishes of the donor. Trust companies usually perform this function in the administration of estates, trusts, and the like.

TRUST OFFICER. The administrative officer of a trust company, or of the trust department of a bank. He is responsible for the proper administration of trusts, the investment of trust funds, and the administration of agencies for trust clients.

UNCOLLECTED FUNDS. A term used to describe a portion of a deposit or deposit account which has not been collected or paid because the items deposited are en route to the drawee bank for payment. Checks drawn against uncollected funds are returned by banks where they are presented. These checks will not be paid by a bank until it knows that the deposit account is fully available and all deposits fully collected. (See also *"Float"* and *"Kite."*)

UNDERWRITER. See *"Investment Banking."*

UNDIVIDED PROFITS. An account in the general ledger of a bank considered a part of the capital structure of the bank. Undivided profits are past earnings which have neither been declared as dividends to the stockholders, nor transferred to the surplus account. At the end of the fiscal period, after the net income (gross income less expenses) has been added to the undivided profits account, the board of directors may declare a dividend from this account.

UNEARNED DISCOUNT. In banks operating under an accrual system, the term "Unearned Discount" applies to interest which has been received in advance by deduction from the face value of the loan, but which is still unearned until the note matures. Example: A 90-day note has been discounted for $6.00. After 30 days, the bank has earned $2.00 of the discount, the $4.00 remaining is the unearned discount.

UNEARNED INCOME. Income that has been collected in advance of the contract to be performed, or consideration to be met in order to earn the income. See *"Unearned Discount."* Also the unused portion of a fee charged on a *"traveler's letter of credit"* (see definition), which is refunded by the bank to the purchaser.

UNSECURED LOAN. A loan made by a bank based upon credit information on the borrower and his integrity to repay his obligations. The loan is not secured by collateral, but is made on the signature of the borrower. A man's wife may be asked to sign the note, and the bank may also request a guarantor, if the borrower is not well-known in the community.

VACATION CLUB ACCOUNT. An account set up by a depositor with a bank for the purpose of saving funds to be used during a vacation period. The depositor agrees to deposit a small amount each week for an agreed-upon number of weeks. The account may be opened at any time, and at the end of the stated time, the bank issues a check for the amount saved. This is often a non-interest-bearing account, and follows the same "pattern" as the well-known "Christmas Club" account.

VAULT. A large room or rooms in a bank, frequently subterranean, where the cash on hand is stored. A section of the vault is also set apart for *safe deposit boxes* (see definition).

WITHDRAWAL. The manner in which funds on deposit in savings accounts may be paid out by the bank. The depositor must present his pass book, and sign either a withdrawal slip or the ledger card (see "*No-Ticket Savings Plan*") before the bank can pay out funds against the deposit account. The signature on the withdrawal slip or signed on the proper line of the ledger card should always agree with the signature on file in the bank to insure that the right person is receiving the withdrawn funds.

WRITE-OFFS. An instrument which has been determined to be uncollectable, since there are no known visible assets available with which to liquidate the obligation. Write-offs are charged as losses to either the surplus or the undivided profits account.

CONCLUSION

It has not been the intent of this material to recommend the use of a particular kind of institution for a necessary financial service. Instead, information has been presented to enable the reader/consumer to make an intelligent choice to satisfy his or her particular needs. For instance, while savings banks are able to offer higher interest rates on savings accounts, these higher interest rates should be weighed against other factors, including convenience or need for additional services not available at a savings bank. Only then can the consumer be certain that his or her choice is sound.

As in all purchases, the purchase of financial services should be made only after a careful determination of cost. That cost can include fees, interest charges, late charges and, of course, interest lost on money not deposited. All should be considered carefully, and weighed with an individual's other needs. In addition, when purchasing a "package" of services for one monthly fee, be certain that all the services in the package are needed. In many cases, separate purchases of those services actually needed can result in lower monthly costs.

In determining costs for specific services the consumer will have no trouble where these costs are clearly stated, such as monthly fees for checking accounts, costs per check, etc. However, where complicated formulae are used to compute charges, the consumer may be at a disadvantage. In these situations a good rule to follow is to present a specific example to the bank and ask that the cost in dollars be computed. The next step would be to take this same example and ask other banks to provide cost figures, using their formulae. In that way an informed decision can be made as to actual cost. If a bank is reluctant to provide this information, it should certainly be factored into your decision to use that particular bank.

FUTURE OF BANKING

As in all areas of our social and economic structure, the name of the game in banking is change. Thrift institutions (savings banks and savings & loan associations) are constantly seeking wavs to offer services which are now restricted to commercial banks. Conversely, commercial banks are aggressively seeking to gain advantages available only to savings banks. These pressures will, of course, result in changes to our financial structure. We may even see a gradual erosion of the differences among the several kinds of institutions and the development of "financial centers." These centers could provide all the financial services an individual may require (including life insurance, automobile insurance, securities transactions, etc.). Proponents of this idea cite the convenience and efficiency that such a system would offer. Opponents contend that specific kinds of institutions are necessary to respond to specific needs in the community.

Other developments in the financial community which may eventually result in significant changes may be cited. The use of electronic funds transfer systems (EFTS), and the concurrent development of automated payroll systems, points to a society where currency and checks may become obsolete. If these developments continue, an individual could some day have his paycheck credited automatically to his bank account. He could then proceed to "spend" his pay by instructing his bank to transfer funds from his account to the telephone company account to pay his phone bill, or to his landlord's account to pay his rent. He could even make purchases at retail establishments and have the store automatically debit his bank account and credit its own account at the bank. All such transactions would be carefully controlled using codes to insure that only bonafide transactions are made. In this kind of society it would be possible to conduct our daily business with only "small change" in our pockets. All other living expenses would be paid by transferring funds electronically.

There are of course many other forces which could change the structure of our financial industry, some of which may be germinating right now. It is up to the consumer, armed with the basic knowledge that this material has provided, to keep abreast of such changes. To do so, a reading of a daily newspaper, and other periodicals is recommended. It is also recommended that publications of government agencies (Federal, state and local) be obtained and studied.

As a consumer, you are paying for the services provided by a financial institution, even those which may be offered "free." That payment gives you a basic right (and obligation) to assure yourself that you are getting the most for your money. Exercise that right!!